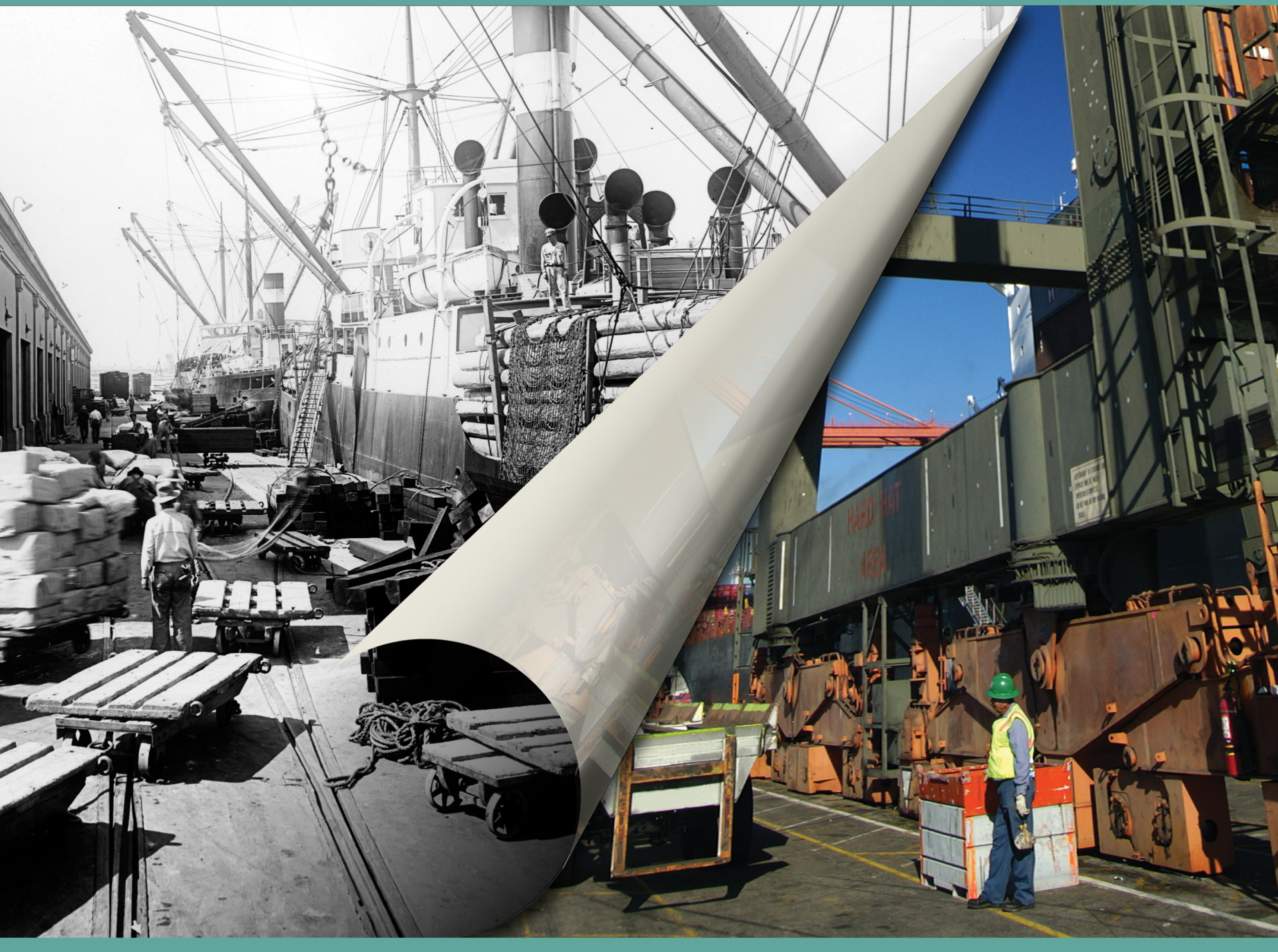
Annual Financial Statements 2006

Port of Los Angeles

Fiscal Year Ending June 30, 2006



Centennial
The Port of Los Angeles
1907★2007

City of Los Angeles
Founded 1781

Annual Financial Statements

Fiscal Year Ending June 30, 2006

PORT OF LOS ANGELES
(HARBOR DEPARTMENT OF THE CITY OF LOS ANGELES),
A COMPONENT UNIT OF THE CITY OF LOS ANGELES, CALIFORNIA

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October 16, 2006

Ms. Geraldine Knatz, Ph.D.
Executive Director
Port of Los Angeles
SanPedro, California

This Component Unit Financial Report of the Harbor Department of the City of Los Angeles, California for the fiscal year endedJune 30, 2006, is hereby submitted.

Introduction

The management of the Port of Los Angeles (the Port) has prepared this annual report. The responsibility for both the accuracy of the presented data, and the completeness and fairness of the presentation, including all disclosures, rests with the Port. To the best of the management's knowledge and belief, the enclosed data are accurate in all material respects and are reported in a manner designed to present fairly the financial position and results of operations of the Port. All disclosures necessary to enable the reader to gain an understanding of the Port's financial activities have been included. The report contains the audited basic financial statements of the Port for the years ended June 30, 2006 and 2005, which have received an unqualified opinion from the Port's independent auditors and are presented in accordance with the Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments. The report is presented in four sections: Introduction, Management's Discussion and Analysis, Basic Financial Statements, and Required Supplementary Information.

The introductory section outlines the relationship of the Port to the City of Los Angeles and describes the organization and reporting entity. It additionally provides an overview of Port properties, operations and key statistical data.

The management's discussion and analysis presents a comparative review of results of operations and changes in financial position for fiscal years 2006 and 2005. Also included in this section are a description of current and proposed capital development plans, a discussion of prospective revenue growth and an overview of the economic conditions and the competitive environment in which the Port operates.

The financial section includes the basic financial statements prepared on an accrual basis and using an economic resources focus. These are accompanied by notes and the auditor's report on the basic financial statements. The basic financial statements are comprised of Statements of Net Assets that present the financial position of the Port as of June 30, 2006 and 2005; Statements of Revenues, Expenses and Changes in Net Assets depicting financial performance for Fiscal Years 2006 and 2005; and Statements of Cash Flows that present the source and application of funds from operations, financing and investment activities for Fiscal Years 2006 and 2005. The accompanying Notes to Basic Financial Statements explainsome of the informationin the basic financial statements and provide more detailed data.

The statistical section includes selected unaudited financial and statistical information, generally presented on a multi-year basis that further explain and support the information in the basic financial statements.

The Port of Los Angeles

The Port is an Enterprise Fund of the City of Los Angeles (the City) and was created by the City Charter to promote and develop a deep-water port facility. It is governed by a five-member Board of Harbor Commissioners (the Board), which has the duty to provide for the needs of commerce, navigation, and fishery for the citizens of California. It operates similar to a private business and is substantially autonomous from the City of Los Angeles. In accordance with Generally Accepted Accounting Principles (GAAP), the accompanying basic financial statements are included as a component unit of the City of Los Angeles, based upon the primary oversight responsibility that the City Council (the Council) and the City of Los Angeles have on all matters affecting Port activities.

Also, based on the foregoing criteria of oversight responsibility and accountability of all Harbor related entities, the operations of the Los Angeles Harbor Improvements Corporation, a nonprofit corporation, have been included in the accompanying basic financial statements. Two joint ventures with the Port of Long Beach have been recorded as investments of the Port in accordance with the equity method of accounting. The Port also participates in a shareholder agreement that was created to form the Los Angeles Export Terminal (LAXT). Additional information regarding these joint ventures and shareholders agreement may be found in the Notes to the Basic Financial Statements for the Port.

The management and operation of the Port are under the direction of the Executive Director, who is responsible for coordinating and directing the activities of several major management groups through the Chief Operating Officer. These groups fall under the responsibilities of the Director of Port Development, the Director of Planning & Environmental Affairs, the Director of Business Development, the Director of Maritime Services, the Director of Port Security & Emergency Operations, and the Chief Financial Officer. The Director of Public Relations & Legislative Affairs reports directly to the Executive Director.

The Director of Port Development is responsible for the Construction Management and Engineering activities of the Port.

The Director of Planning and Environmental Affairs is responsible for the Environmental Management, Economic Development, Goods Movement and Planning activities of the Port.

The Director of Business Development directs the Real Estate and Marketing divisions of the Port.

Reporting to the Director of Maritime Services are the Construction and Maintenance, Wharfinger and Information Systems divisions of the Port.

The Director of Port Security & Emergency Operations has responsibility for the Port Police, Port Pilots and Homeland Security functions of the Port.

The Chief Financial Officer oversees the financial affairs of the Port. Reporting to this position are the Accounting & Budget, Financial Management, Cash & Debt Management, Internal Audit, Contracts/Purchasing and Risk Management divisions.

The Director of Public Relations & Legislative Affairs is charged with the dissemination of information to the public, news media liaison, advertising, legislative coordination and community involvement activities. This position is also responsible for the Communications Services unit which provides multimedia and graphic arts services to the Department.

The Port is located in San Pedro Bay, approximately 20 miles south of downtown Los Angeles. The Port's facilities lie within the shelter of a nine-mile long breakwater constructed by the Federal government in several stages, the first of which commenced in 1899. The breakwater encloses the largest man-made harbor in the Western Hemisphere.

The Port operates primarily as a landlord, as opposed to an operating, port. Its docks, wharves, transit sheds, and terminals are leased to shipping or terminal companies, agents and to other private firms. Although the Port owns these facilities, it has no direct hand in managing the daily movement of cargo. The Port is also landlord to various fish markets, boat repair yards, railroads, restaurants, a shipyard, and other similar activities.

The major sources of income for the Port are from shipping services (wharfage, dockage, pilotage, etc.), land rentals, and warehouse revenues. It currently serves over 80 shipping companies and agents with facilities that include approximately 200 berthing facilities along 43 miles of waterfront.

In terms of its size, the Port is one of the largest West Coast ports. Within its boundaries lie approximately 4,200 acres ofland and 3,300 acres of water.

Within the Port are 26 terminals. Two major railroads serve the Port, and it lies at the terminus of two major freeways within the Los Angeles freeway system. Subsurface pipelines link the Port to major refineries and petroleum distribution terminals within the Los Angeles Basin.

The Port provides leases to more than 250 tenants, ranging from individual stalls at the fish market to a 484-acre container terminal. The Port encompasses container and automobile terminals, dry bulk, liquid bulk and breakbulk facilities and omni terminals. The Intermodal Container Transfer Facility (ICTF) and other intermodal facilities are also on Port property. The Port also provides slips for pleasure craft, sport fishing boats and charter vessels.

The Port has a main channel with a minimum depth of 45 feet below the mean low water mark. The Port's channels are essentially maintenance free because there is no source of sand or silt coming into the harbor.

The economic impact of the Port touches not only the City and County of Los Angeles, but also the surrounding four counties: Orange, Ventura, Riverside, and San Bernardino. The Port directly and indirectly generates employment for approximately 260,000 people in Southern California and accounts for $1 out of every $23 in local income.

The Port of Los Angeles currently handles the largest volume of containerized cargo of all U. S. ports, leading the nation for the past three years, and additionally ranks as number one in cargo value for U. S. waterborne foreign traffic.

The Port's major trading partners are concentrated along the Pacific Rim and include China, Japan, Taiwan, Thailand and South Korea. Cargo to and from these countries represents the bulk of the total value of all cargo shipped through the Port.

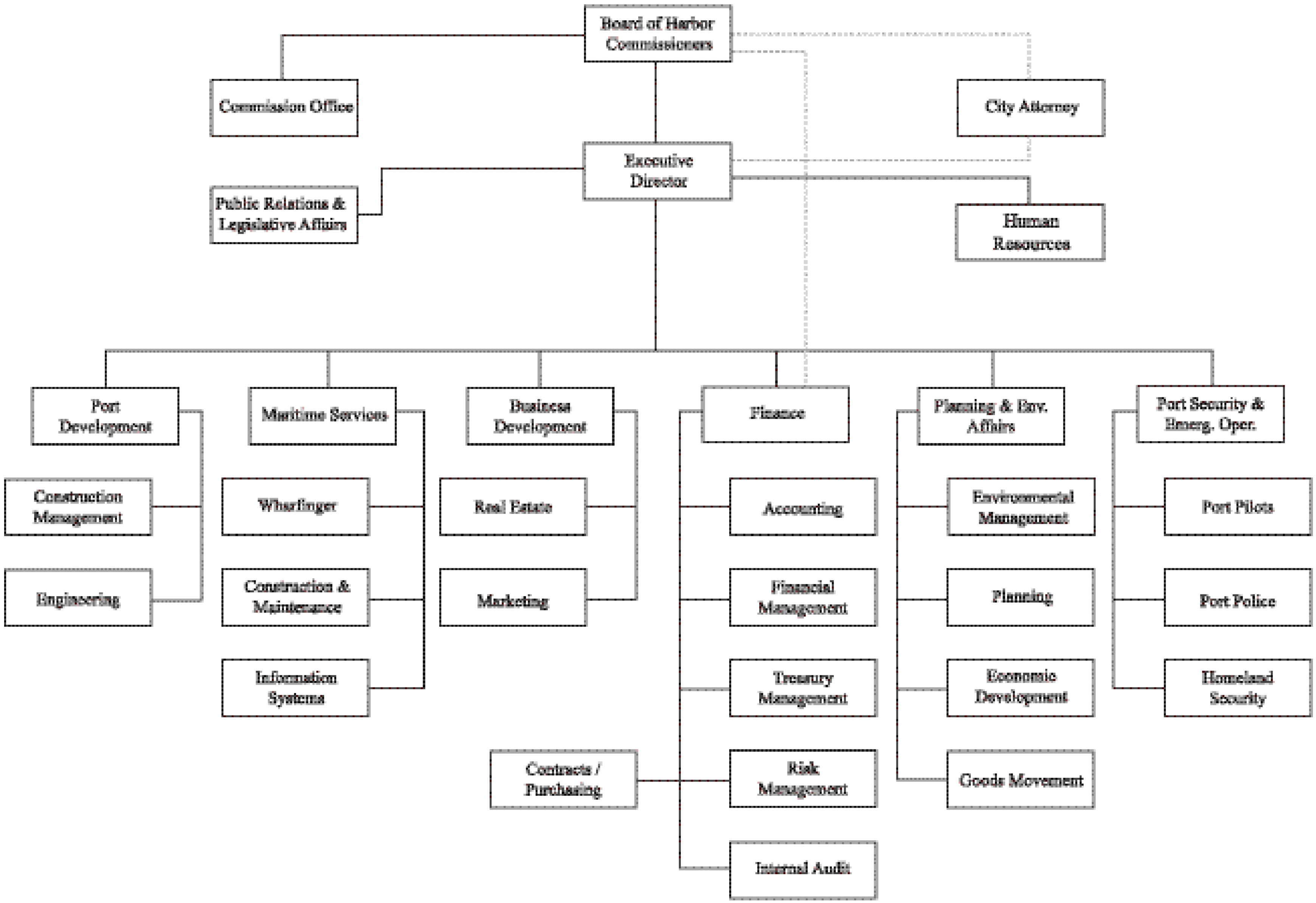
The Port continues to maintain an "AA" credit rating with Standard and Poor, Moody's and Fitch Investors Services. This is the highest credit rating for any U.S. port and reflects the confidence of the financial community in the strength, continuing financial performance and competitive position of the Port of Los Angeles.

The Port is not subsidized by tax dollars and has maintained its financial strength through generated revenues. The Port of Los Angeles is one of the few U.S. ports that remain self-sufficient.

Sincerely,

William Gonzales
Controller

LOS ANGELES HARBOR DEPARTMENT
ORGANIZATION CHART
2006/2007



PORT OF LOS ANGELES
(HARBOR DEPARTMENT OF THE CITY OF LOS ANGELES),
A COMPONENT UNIT OF THE CITY OF LOS ANGELES, CALIFORNIA

Administrative Staff

Board of Harbor Commissioners	S. David Freeman, President Jerilyn López Mendoza, Vice-President Kaylynn L. Kim, Commissioner Douglas P. Krause, Commissioner Joseph R. Radisich, Commissioner
Senior Management	Geraldine Knatz, Ph.D. Executive Director Michael Christensen, Director of Port Development Lonnie Tang, Director of Maritime Services Molly Campbell, Chief Financial Officer (Pending Appointment), Director of Business Development (Pending Appointment), Director of Port Security & Emergency Operations David Mathewson, Director of Planning and Environmental Affairs Arley Baker, Director of Public Relations & Legislative Affairs
Management Staff	Theresa Adams Lopez, Director of Media Relations Ralph Appy, Director of Environmental Management Diane Boskovich, Chief Wharfinger Ronald Boyd, Chief of Port Police Charles Turner, Director of Finance George Cummings, Director of Homeland Security Michael Di Bernardo, Director of Planning & Research Tony Gioiello, Director of Engineering William Gonzales, Controller Margaret Hernandez, Director of Contracts/Purchasing Jim MacLellan, Director of Marketing Kathy Merkovsky, Director of Risk Management Capt. Jim Morgan, Pilot Service Manager Joannie Mukai, Director of Construction and Maintenance Julia Nagano, Director of Corporate Communications Shaun Shahrestani, Director of Construction Philip Tondreault, Director of Real Estate Rocki Walker, Director of Human Resources
Legal Staff	Thomas Russell, Senior Assistant City Attorney

KPMG LLP
Suite 2000
355 South Grand Avenue
Los Angeles, CA 90071-1568

Independent Auditors' Report

The Board of Harbor Commissioners
Port of Los Angeles (Harbor Department
of the City of Los Angeles):

We have audited the accompanying financial statements of the Port of Los Angeles (Harbor Department of the City of Los Angeles), a component unit of the City of Los Angeles, California, as of and for the years ended June 30, 2006 and 2005, as listed in the table of contents. These financial statements are the responsibility of the Port of Los Angeles' management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Port of Los Angeles' internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described more fully in note to the financial statements, the financial statements referred to above include only the financial activities of the Port of Los Angeles and are not intended to present fairly the financial position and results of operations of the City of Los Angeles in conformity with U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Port of Los Angeles as of June 30, 2006 and 2005, and the changes in its financial position and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 16, 2006, on our consideration of the Port of the Los Angeles' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing results of our audit.

The management's discussion and analysis on pages 11 to 27 and the pension supplementary information on page 65 are not a required part of the basic financial statements but are supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The introductory section and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. The introductory section and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

KPMG LLP

October 16, 2006

This section of the Port of Los Angeles' (the Port) annual financial report presents a discussion and analysis of the Port's financial performance during the fiscal years that ended June 30, 2006 and 2005. Please read it in conjunction with the transmittal letter at the front of this report and the Port's financial statements, which follow this section.

The Port is an enterprise fund, and the financial statements are prepared on an accrual basis using the economic measurement focus in accordance with U.S. generally accepted accounting principles promulgated by the Governmental Accounting Standards Board. Revenues are recognized when earned, not when received, and expenses are recognized when incurred, not when paid. Capital assets are capitalized and are depreciated over their useful lives (except land). See the notes to the financial statements for a description of the Port's significant accounting policies.

The following is a condensed summary of the Port's net assets as of June 30, 2006, 2005, and 2004:

Net Assets
(In thousands)

	June 30		
	2006	**2005**	**2004**
Current and other assets	$ 571,606	433,866	325,970
Capital assets	2,732,704	2,722,427	2,707,210
Total assets	3,304,310	3,156,293	3,033,180
Long-term debt outstanding	887,765	836,569	857,811
Other liabilities	215,238	213,028	163,743
Total liabilities	1,103,003	1,049,597	1,021,554
Net assets			
Invested in capital assets, net of related debt	1,844,939	1,885,858	1,849,398
Restricted	63,917	16	17
Unrestricted	292,451	220,822	162,211
Total net assets	$ 2,201,307	2,106,696	2,011,626

(Continued)

Net assets of the Port increased 4.5% to $2.2 billion in fiscal year 2006. Less than 2.9% of these net assets are restricted and are comprised of 2005A and 2005B bond proceeds for crossover refunding. Net assets of the Port increased 4.7% to $2.1 billion in fiscal year 2005. Less than 1.0% of these net assets are restricted and are comprised of unspent bond proceeds reserved for cost of issuance. The remaining net assets are either unrestricted or are invested in capital assets (facilities, infrastructure, equipment, and the like), net of related debt. These assets are under the control of the Port and must be used for the operation and maintenance of Port facilities and the acquisition and construction of improvements as provided under the State of California Tidelands Trust Act.

Liquidity
(In thousands)

	Year ended June 30		
	2006	2005	2004
Working capital	$ 228,313	183,848	122,512
Cash and cash equivalents, unrestricted	256,258	211,241	117,287
Cash and cash equivalents, current restricted	191,578	113,504	98,544
Net cash provided by operating activities	203,601	226,037	208,762
Net cash provided by investing activities	22,581	26,148	15,523
Net cash used in capital/financing activities	(103,091)	(143,271)	(181,379)

Fiscal 2006

Working capital at June 30, 2006 increased 24.2% from the close of the prior fiscal year to $228.3 million. The principal reason for the increase is the higher balances in cash and investments in fiscal year 2006.

Net cash provided by operating activities decreased $22.4 million from the prior year, reflecting the $71.8 million increase in payments for goods and services, offset by the growth in shipping service fees collected. Cash generated from investing activities decreased $3.6 million due, among others, to the fact that, instead of receiving the $3.5 million cash distribution from the Intermodel Container Transfer Facility (ICTF) in fiscal year 2006, the fund actually came in several days after June 30, 2006.

The $102.8 million, or 71.8%, decrease in net cash used in capital and related financing activities reflects the increase in proceeds from debt issuances offset by growth in spending levels for capital construction.

Fiscal 2005

Working capital at June 30, 2005 increased 50.1% from the close of the prior fiscal year to $183.8 million. The principal reason for the increase is the higher balances in cash and investments in fiscal year 2005.

(Continued)

Net cash provided by operating activities increased $17.3 million from the prior year, reflecting the new $9.6 million proceeds from operating grants. Cash generated from investing activities increased $10.6 million due mainly to an increase of $8.1 million in the securities lending program.

The $38.1 million, or 21.0%, decline in net cash used in capital and related financing activities reflects reduced spending levels for capital construction.

The following is a condensed summary of the Port's changes in net assets for the years ended June 30, 2006, 2005, and 2004:

Changes in Net Assets
(In thousands)

	Year ended June 30		
	2006	**2005**	**2004**
Operating revenues	$ 412,117	368,828	349,661
Income from investments in Joint Powers Authorities and other entities	4,302	3,543	2,795
Interest and investment income	9,582	7,266	2,298
Total revenues	426,001	379,637	354,754
Expenses:			
Operating and administrative expenses	169,001	153,768	139,304
Depreciation	98,781	70,040	67,934
Interest expense on bond indebtedness notes payable	37,787	42,279	43,034
Other income and expense, net	27,865	18,480	22,001
Total expenses	333,434	284,567	272,273
Income before contributions	92,567	95,070	82,481
Capital contributions	2,044	—	867
Deletions of capital contributions	—	—	(2,518)
Changes in net assets	$ 94,611	95,070	80,830

Fiscal 2006

Net assets for the Port increased $94.6 million in fiscal year 2006. Approximately 96.7% of total revenues were derived from fees for shipping services and leasing of facilities to customers. Since the Port operates as a landlord, operating expenses are principally administrative in nature. Operating and administrative expense increased 9.9% over the prior fiscal year. The $15.2 million increase reflects an additional $5.4 million in provision for workers' compensation in fiscal year 2006 to bring up the reserve level per the new actuarial report.

(Continued)

Employee salaries and benefits increased $7.5 million due to higher retirement contributions and allocated net pension obligation.

Depreciation expense increased $28.7 million to $98.8 million in fiscal year 2006. Capital projects of $260.4 million in the form of construction in progress and preliminary construction in progress were closed out to depreciable fixed assets in fiscal year 2006.

Other expense, net of other income, increased $9.4 million to $27.9 million in fiscal year 2006 from $18.5 million recorded in the prior year. State and federal grants income decreased $7.9 million in fiscal year 2006.

Capital contributions of $2.0 million represent funds for capital grants received in fiscal year 2006.

Income before capital contributions decreased $2.5 million to $92.6 million; a 2.6% decrease over fiscal year 2005 reported income before capital contributions of $95.1 million. This decrease reflects the addition of $46.4 million in total revenues and a greater increase of $48.8 million in total expenses.

Fiscal 2005

Net assets for the Port increased $95.1 million in fiscal year 2005. Approximately 97.2% of total operating revenues were derived from fees for shipping services and leasing of facilities to customers. Since the Port operates as a landlord, operating expenses are principally administrative in nature. Operating and administrative expense increased 10.4% over the prior fiscal year. The $14.5 million increase mainly reflects an additional $7.1 million in Port security expenses and an increase of $5.0 million in salaries and benefits. City services and allocations increased $3.6 million. Reserves for bad debts decreased $4.2 million in fiscal year 2005. Los Angeles Export Terminal (LAXT) accounts receivable are fully reserved and totaled $44.0 million as of June 30, 2005.

Other income and expense declined to $18.5 million in fiscal year 2005 from $22.0 million recorded in the prior year. State and federal grants income increased $5.8 million in fiscal year 2005. The Port paid $22.2 million to China Shipping Holding Company, Ltd. in settlement costs for claimed damages and costs resulting from delays in timely delivery of premises and environmental mitigation costs.

The Port received no capital contributions in fiscal year 2005.

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Income before capital contributions increased $12.6 million to $95.1 million, a 15.3% increase over fiscal year 2004 reported income before capital contributions of $82.5 million. This increase reflects the addition of $24.9 million in total revenues and a smaller increase of $12.3 million in total expenses.

Operating Revenues
(In thousands)

		Year ended June 30		
		2006	**2005**	**2004**
Shipping services	$	373,348	328,814	311,384
Percentage of total revenues		90.6%	89.1%	89.1%
Rentals		33,876	34,630	33,261
Percentage of total revenues		8.2%	9.4%	9.5%
Royalties, fees, other operating revenues		4,893	5,384	5,016
Percentage of total revenues		1.2%	1.5%	1.4%
Total	$	412,117	368,828	349,661

Fiscal 2006

Operating revenues for fiscal year 2006 rose to $412.1 million, reflecting an 11.7% increase from prior year revenues of $368.8 million and is principally attributed to the container volume growth and a 5.0% tariff increase effective July 1, 2005. A total of 7.8 million 20-foot equivalent units (TEUs) in container volume moved through Port facilities during fiscal year 2006, a 7.3% increase from the prior year. Revenue tons billed grew to 181.6 million, or 12.0% increase from the prior year.

Fiscal 2005

Operating revenues for fiscal year 2005 rose to $368.8 million, reflecting a 5.5% increase from prior year revenues of $349.7 million and is principally attributed to the 5.0% tariff increase effective January 1, 2004. A total of 7.3 million TEUs in container volume moved through Port facilities during fiscal year 2005, a 1.1% decline from the prior year. Revenue tons billed remained essentially unchanged from the prior year.

Shipping Services

Shipping service revenues consist of several classifications of fees assessed for various activities relating to vessel or cargo movement, merchandise storage, and use of Port facilities and cranes. Of these fees, wharfage is the most significant and comprised 88.6% and 87.7% of the total shipping service revenues in fiscal years 2006 and 2005, respectively. Wharfage is the fee charged against merchandise for passage over wharf premises, between vessels, onto or from barges.

(Continued)

Income from shipping services in fiscal year 2006 rose to $373.3 million, reflecting a growth of $44.5 million, or 13.5%, over fiscal 2005. Increased container volume and tariff rates are the principal reasons for the growth. Income from shipping services in fiscal year 2005 rose to $328.8 million, reflecting a growth of $17.4 million, or 5.6%, over fiscal 2004. Increased cargo volumes were the principal reason for the growth. Ongoing development of improved intermodal facilities, the addition of Pier 400 container terminal, and increasing strength of shipping alliances based in the Port all contributed to growth in market share.

The following are summaries of cargo volumes by major classification handled by the Port and container volumes and associated tonnage:

Cargo Type in Metric Revenue Tons
(In thousands)

	Year ended June 30		
	2006	**2005**	**2004**
Container/general cargo	155,255	144,998	146,296
Liquid bulk	22,797	12,798	11,925
Dry bulk	3,583	4,313	3,847
Total	181,635	162,109	162,068

Container Volume in TEUs
(In thousands)

	Year ended June 30		
	2006	**2005**	**2004**
Import TEUs	4,150	3,868	4,053
Export TEUs	3,651	3,405	3,299
Total	7,801	7,273	7,352

Metric revenue tons are the measure used to determine cargo volumes that move through the Port. The figure represents the actual weight of cargo, when this figure is available, or when cargo weight is not provided, the weight is closely approximated by calculation. A total of 181.6 million metric revenue tons were billed in fiscal year 2006, or a 12% growth over fiscal year 2005 volume. A total of 162.1 million metric revenue tons were billed in fiscal year 2005, or no growth over fiscal year 2004 volume.

During fiscal 2006, tonnage from dry bulk decreased 16.9%, or 0.7 million metric revenue tons, due principally to reduced bulk coal and coke exports. Petroleum increased 78.1%, or 10.0 million metric revenue tons. Tonnage for general cargo billed in fiscal year 2006 increased 10.3 million metric revenue tons compared to the prior year.

(Continued)

During fiscal 2005, tonnage from dry bulk increased 12.1%, or 0.5 million metric revenue tons, due principally to increased scrap metal exports. Petroleum increased 7.3%, or 0.8 million metric revenue tons. Tonnage for general cargo billed in fiscal year 2005 declined 1.3 million metric revenue tons compared to the prior year. Additional information for volume by cargo type is presented in the supplementary information section of this report in the schedule titled "Key Information on Revenue Statistics."

Rentals

The Port makes available to customers various types of rental properties on Port-controlled lands. These properties include land, buildings, warehouses, wharves, and sheds. Rates are set for these properties using various methodologies and are broken into two general classifications, waterfront and backland. Independent appraisals are performed periodically to establish benchmark rates for these broad land classifications. Rates ultimately set in land rental agreements may be adjusted, within reason, to reflect general market conditions. Rates for other categories of properties are also set through negotiations and will further take into account the condition, location, utility, and other aspects of the property. In all cases, the Port seeks to achieve the 12% rate of return that has been set by Board policy.

During fiscal 2006, rental income at the Port decreased $0.8 million, or a 2.2% reduction compared to last year and represented 8.2% of fiscal year 2006 total operating revenues. This decline is principally attributable to the $1.6 million credits issued to marina customers at the Cerritos East Basin in return for the improvements and repairs of their facilities. During fiscal 2005, rental income at the Port increased $1.4 million, or 4.1%, over last year and represented 9.4% of fiscal year 2005 total operating revenues. This growth is principally attributable to the higher land rental received from the operator of the ICTF as a result of higher container throughput.

Royalties, Fees, and Other Operating Revenue

The Port levies fees for a variety of activities conducted on Port properties. Examples include royalties from the production of oil and natural gas, fees for parking lots, motion picture productions, foreign trade zone operations, miscellaneous concessions, distribution of utilities, and maintenance and repair services conducted by the Port at the request of customers.

Revenues in this category totaled $4.9 million for fiscal year 2006, a reduction of $0.5 million or 9.1% over the prior fiscal period. Revenues were reduced by a reversal of prior year billing for wharf damage. Revenues in this category totaled $5.4 million for fiscal year 2005, an increase of $0.4 million or 7.3% over the prior fiscal period. The growth mainly reflects the higher parking fees as a result of the 5% tariff rate increase effective January 1, 2005.

Operating and Administrative Expenses

The Port is a landlord port. As such, the Port does not manage or participate in the operations of facilities, and expenses incurred are principally administrative and relatively fixed in nature.

During fiscal 2006, operating and administrative expenses rose $15.2 million to $169.0 million, a 9.9% increase from prior fiscal year expense of $153.8 million. During fiscal 2005, operating and administrative expenses rose

(Continued)

$14.5 million to $153.8 million, a 10.4% increase from prior fiscal year expense of $139.3 million. Categories of expense reflecting more significant increases include salaries and benefits and other operating expenses. Offsetting these increases were reductions in outside services and City services. Changes in other categories of expenses were less significant.

Operating and Administrative Expenses (O&A)
(In thousands)

	Year ended June 30		
	2006	2005	2004
Salaries and benefits	$ 65,705	58,182	53,165
Percentage of total O&A	38.9%	37.8%	38.2%
Marketing and public relations	3,333	3,455	3,769
Percentage of total O&A	2.0%	2.2%	2.7%
Travel and entertainment	822	743	758
Percentage of total O&A	0.5%	0.5%	0.5%
Outside services	33,673	39,672	32,104
Percentage of total O&A	19.9%	25.8%	23.0%
Materials and supplies	5,400	5,320	4,682
Percentage of total O&A	3.2%	3.5%	3.4%
City services	20,821	22,361	18,729
Percentage of total O&A	12.3%	14.5%	13.4%
Other operating expenses	39,247	24,035	26,097
Percentage of total O&A	23.2%	15.7%	18.7%
Total O&A	$ 169,001	153,768	139,304

Fiscal 2006

Salaries and benefits expense rose $7.5 million from the prior fiscal year. The increase results from higher charges in health and dental insurance by $1.9 million, an increase of $2.3 million in retirement contributions, and an allocated net pension obligation of $2.2 million.

The $6.0 million decrease in outside services reflects the combination of a drop of $10.5 million in Port security-related expenditures, a $16.0 million increase in capitalized amount in fiscal year 2006, an increase in environmental assessment costs of $14.7 million, and an increase of $3.1 million in maintenance dredging costs.

City services, net of capitalized amount, decreased $1.5 million during the comparative periods.

Other operating expenses for fiscal year 2006 increased $15.2 million from the prior year. The increase reflects higher provisions to the bad debt reserve by $6.8 million, a substantial portion of which relates to the LAXT. As future operations of the LAXT are uncertain at this time, the Port has elected to fully reserve all outstanding receivables due from this customer. Provision for workers' compensation jumped $5.4 million to meet requirements

(Continued)

at June 30, 2006 as determined in the new actuarial valuation. Other operating expenses also include a $5.0 million subsidy payment for air quality program.

Fiscal 2005

Salaries and benefits expense rose $5.0 million from the prior fiscal year. The increase results from scheduled employee pay increases, a one-time $2.3 million retro pay adjustment for Port police, and expansion of the Port workforce in fiscal year 2005.

The $7.6 million increase in outside services mainly reflects the growth in Port security-related expenditures of $7.1 million.

City services, net of capitalized amount, increased $3.6 million during the comparative periods. The increase reflects the lower capitalized amount of $4.0 million in fiscal year 2005.

Other operating expenses for fiscal year 2005 decreased $2.1 million from the prior year. The decrease reflects a $4.2 million reduction in provisions to the bad debt reserve, a substantial portion of which relates to the LAXT. As future operations of the LAXT are uncertain at this time, the Port has elected to fully reserve all outstanding receivables due from this customer. Offsetting this $4.2 million reduction is the $0.7 million in higher insurance expense due to the premium increases and additional police liability coverage. Also, provisions for workers' compensation claims grew this year by $1.2 million, due to claim payments and additional reserves set aside to meet requirements at June 30, 2005, as determined in the most recent actuarial valuation.

Nonoperating Income and Expense

Fiscal 2006

Net nonoperating expense for fiscal year 2006 increased $1.8 million from the prior year to $51.8 million.

Income from the Port's investment in the ICTF increased 21.4% to $4.3 million for fiscal year 2006. The increase reflects the higher container throughput handled by ICTF in fiscal year 2006. Interest and investment income increased $2.3 million to $9.6 million for fiscal year 2006. The increase includes a $5.7 million in higher interest income and a $3.4 million negative change in fair value adjustment for the Port's share in the City of Los Angeles' investment pool.

Other nonoperating expense increased $3.3 million to $37.6 million in fiscal year 2006. Provision for litigation, claims, and settlements alone accounts for $35.1 million.

Other nonoperating income decreased $6.0 million in fiscal year 2006 due to a $7.9 million reduction in grant receipts and a $2.0 million increase in delinquency penalty.

Fiscal 2005

Net nonoperating expense for fiscal year 2005 decreased $10.0 million from the prior year to $49.9 million.

(Continued)

Provision for litigation, claims, and settlements increased $22.0 million to $30.3 million. The increase is attributable to the $22.2 million that the Port expensed in June 2005 for the China Shipping settlement case.

The receipts of $9.9 million in grant income in fiscal year 2005 and losses of $14.0 million relating to assets disposals in fiscal year 2004 account for the $25.6 million changes in net other income and expenses from prior year.

Income from the Port's investment in the ICTF increased 26.8% to $3.5 million for fiscal year 2005. The increase reflects the higher container throughput handled by ICTF in fiscal year 2005. Interest and investment income increased $5.0 million to $7.3 million for fiscal year 2005. The increase includes a $2.6 million in higher interest income and a $2.4 million change in fair value adjustment for the Port's share in the City of Los Angeles' investment pool.

Long-Term Debt and Capital Assets

Long-Term Debt

The Port's long-term debt is comprised of senior debt in the form of Harbor Revenue Bonds, commercial paper (to fund capital projects that ultimately will be refunded by bonds), and subordinated debt in the form of loans. As of June 30, 2006 and 2005, the Port's outstanding long-term debts were $887.8 million and $836.6 million, respectively.

Bonded Debt

On October 13, 2005, the Port advance refunded a portion of the outstanding 1996A and 1996B Bonds with the issuance of the 2005 Refunding Bonds. Proceeds from 2005A Refunding Bonds and 2005B Refunding Bonds were deposited into the related Crossover Refunding Escrow Funds and invested to refund $30.9 million of the 1996A Bonds and $31.7 million of the 1996B Bonds on their call dates (the Crossover Dates) of August 1, 2006 and November 1, 2006, respectively. Prior to their respective Crossover Dates, interest payments on the 2005A and the 2005B Refunding Bonds are payable from and secured by investment receipts from the deposit in the related Crossover Refunding Escrow Funds. The Crossover Refunding 2005A and 2005B Bonds are not on parity with other Harbor Revenue Bonds until their respective Crossover Dates.

In addition, the Port issued and applied the proceeds of the 2005 Series C-1 Refunding Bonds to provide funds to reimburse Citigroup and De La Rosa for funds advanced by them for the purchase of $15.5 million of 1996A Bonds and $27.7 million of the 1996B Bonds tendered by the holders thereof in response to a voluntary open market purchase solicitation. All such purchased 1996A Bonds and 1996B Bonds were cancelled on the date of delivery of the Series 2005C-1 Bonds.

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On May 4, 2006, the Port issued the 2006A Bonds for $200.7 million on a forward delivery basis to defease the remaining 1996A Bonds. All such 1996A Bonds were redeemed and cancelled on their call date of August 1, 2006. On August 3, 2006, the Port issued the 2006B Bonds for $209.8 million and the 2006C Bonds for $16.5 million on a forward-delivery basis to defease $211.9 million of the outstanding 1996B Bonds and $17.1 million of the 1996C Bonds. All such 1996B Bonds and 1996C bonds will be redeemed and cancelled on their call date of November 1, 2006.

The refunding of 1996B Bonds and 1996C Bonds will be completed on November 1, 2006. In combination with the completion of refunding of 1996A Bonds, the Port in effect achieved the aggregate debt service savings for approximately $87 million, representing a net present value benefit of $51.8 million.

Commercial Paper Notes

On November 7, 2001, the Port issued its Offering Memorandum for the issuance of Commercial Paper Notes (Notes) not to exceed $375 million in three series, Series A (Non-AMT), Series B (AMT), and Series C (Taxable). The purpose of the Notes is to provide interim financing for the construction, maintenance, and replacement of the Port's structures, facilities, and equipment. Rates vary on the Notes from 2.38% to 3.45% during the fiscal year ended June 30, 2006. Due dates also vary, but within the maximum of 270 days from the issue dates.

In fiscal years 2006 and 2005, the Notes were remarketed for principal only. Therefore, the outstanding balance at June 30, 2006 remained unchanged from fiscal year 2005 at $113.6 million. On August 31, 2006, the Port issued its 2006D Refunding Bonds in the aggregate principal amount of $111.3 million through a competitive sale to refund the Notes. The bonds were awarded to Lehman Brothers who submitted the bid with the lowest true interest cost (TIC) of 4.7106%. The reasons of refunding short-term variable Notes with long-term fixed rate revenue bonds are: (1) to avoid potential increases in costs of funds due to rising on short-term interest rates; (2) to take advantage of the long-term low interest rates in the current bond market; and (3) to more closely match the debt to the expected economic life of the financed projects.

Under Section 609 of the City Charter of the City of Los Angeles and the Bond Procedural Ordinance, the Port's capacity to issue debt is not limited. However, the Port's capacity is constrained contractually under covenants of the currently outstanding debt to an aggregate ratio of revenue to annual debt service of at least one hundred twenty-five percent (125%). As of June 30, 2006, this capacity is approximately $2.0 billion, calculated by using available operating revenues and current interest rate assumptions of 6.0%. The Port's existing Debt Policy has set the maximum outstanding debt to be $1.5 billion.

(Continued)

Long-term debt consisted of the following as of June 30, 2006, 2005, and 2004 (in thousands):

	2006	2005	2004
Revenue bonds payable	$ 770,099	718,513	735,001
Notes payable	4,105	4,495	9,715
Commercial paper	113,561	113,561	113,095
Total	$ 887,765	836,569	857,811

Capital Assets

Capital assets, net of accumulated depreciation consisted of the following as of June 30, 2006, 2005, and 2004 (in thousands):

	2006	2005	2004
Land	$ 955,824	953,459	859,857
Harbor facilities and equipment, net	1,448,659	1,284,382	1,186,182
Construction in progress	232,412	269,520	448,719
Preliminary costs – capital projects	95,809	215,066	212,452
Total	$ 2,732,704	2,722,427	2,707,210

Capital expenditures for fiscal year 2006 increased to $95.8 million, or 9.0%, over the prior year. Spending was lower than the $164.3 million and $203.7 million originally budgeted in fiscal 2006 and 2005, respectively. This was primarily due to projects that have been put on hold pending completion of environmental assessments. Approximately 35.0% of the fiscal year 2006 development funds were expended on commercial development with most of it being related to the Waterfront Development. The remaining 65.0% was primarily used for terminal improvements, dredging, and environmental enhancements.

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Capital Expenditure – Facilities and the Infrastructure*
(In thousands)

	Year ended June 30		
	2006	2005	2004
Commercial development	$ 33,913	32,100	11,416
Dredging	17,277	22,735	23,652
Environmental studies and credits	14,126	1,773	2,229
Infrastructure improvements	1,136	445	1,097
Port security	1,921	1,064	242
Terminal development	25,070	27,236	106,198
Transportation improvements	2,434	2,574	1,623
Total	$ 95,877	87,927	146,457

* Source: Engineering Division of the Port of Los Angeles. Direct costs only. Does not include overhead and interest allocations.

Budgeted expenditures for the Port's fiscal year 2007 Capital Improvement Program will increase from the previous fiscal year. The increase in fiscal year 2007 expenditures will include the Waterfront Development Projects (13.0%), Port Security (21.4%), Environmental Enhancements (8.8%), West Channel/Cabrillo Way Marina – Phase II (4.8%), Cruise Terminal Baggage Handling Building (4.4%), West Basin Redevelopment (10.1%), and the Main Channel Deepening Program (14.8%).

The West Basin development at the China Shipping Terminal includes the development of approximately 134 acres of backland terminal, construction of 2,500 feet of wharf at Berths 100-102, a new gate complex, and two new access bridges. Phase I of the China Shipping Terminal was completed in January 2004. Berth 100 is the first Alternate Marine Power (AMP) container ship wharf and the first AMP-powered container ship docked at Berth 100 on May 17, 2004. Phase II of China Shipping is proposed, which includes a 925-foot Berth 102 wharf, 35 acres of the 43 acres Southwest Slip Fill, construction of a Marine Building and Crane Maintenance Building and Access Bridge No. 2. Phase III is proposed and consist of a 375-foot Berth 100 South wharf extension and an additional 24 acres of container yard. Project completion is expected in October 2009.

The Berth 121-131 container terminal program is a three-phase program to upgrade the container terminal with 3,500 feet of new wharves for twelve container cranes, 28-acres of additional backland, dredging, and terminal buildings. Project completion is expected in March 2012.

The Berth 131-148 terminal projected expansion program is being designed and will upgrade and redevelop approximately 110 acres and develop an additional 53+/- acres of container terminal. Improvements include the construction of 2,600 feet of wharf, five new cranes, 100 foot gauge crane rail, alternative maritime power (AMP), dredging to -53 ft., new buildings (including administration building, maintenance and repair, yard operations, crane maintenance/marine building and driver service buildings), new main gate, relocation of the Pier A Street

 (Continued)

Rail Yard, ICTF, new reefer wash, demolition of existing buildings, concrete transtainer runways, and general container yard and infrastructure improvements. The estimated project completion date is April 2010.

The Berth 171-181 Terminal Redevelopment project will redevelop the existing 44-acre Pasha break bulk terminal. Improvements include environmental soil remediation, construction of new terminal buildings, wharf upgrades, and 525 feet of new wharf extension, a 12-acre expansion of terminal backland, relocation of existing railroad tracks, and construction of a new heavy lift rail spur. Project completion is expected in January 2009.

The Berth 212-224 Container Terminal Development proposes redevelopment of the existing terminal for optimal utilization and efficiency. The project scope includes removal of an existing angle in the wharf at Berth 218 to maximize use of the existing wharf, wharf upgrades, AMP, construction and improvement of existing backland, new cranes, crane rails, lighting, utilities, relocation of parking facilities, and construction of a pedestrian bridge. The estimated project completion date is May 2011.

The Berth 226-236 Container Terminal Development also proposes the redevelopment of the existing terminal for optimal utilization and operational efficiencies. The project scope includes construction, reconstruction and improvements to wharves, backland, new cranes, crane rails, lighting, utilities, buildings, new gate complex, grade crossings, and modification of adjacent roadways and railroad tracks. Project completion is expected in February 2012.

In order to accommodate deeper draft container vessels, the Port is working with the U.S. Army Corps of Engineers to dredge 8.8 million cubic yards from the Main Channel Turning Basin, East Basin, West Basin, East Basin Channel, and Cerritos Channel. Existing design depth in the channel is currently -45 ft. MLLW. The dredging program will provide a depth of -53 ft. MLLW, plus two feet overdepth, and will be complete in December 2007.

The Transportation Program is comprised of the development of a port-wide transportation master plan and traffic improvements. The Transportation Master Plan will serve as a resource to meet existing and future demands of the Port's transportation network. Planning and design is moving forward for roadway and interchange improvements, grade separation, and a new near-dock rail yard. Projects include: Harry Bridges Boulevard Improvement (design completion anticipated February 2007), I-110/SR47/Harbor Blvd. Interchange, Front Street SR47 On and Off Ramp, Fries Avenue Grade Separation (40% design complete), Southern California International Gateway (SCIG), Navy Way/Seaside Avenue Ramps, Advanced Transportation Management Information (ATMIS), Port Incident Management System (PIMS), and other improvements.

The Port Police Headquarters Project consists of the design and construction of a new 51,000-square-foot three-story Port police station at 320 S. Center Street with subterranean parking and an adjacent two-level parking structure. The project was issued a Notice to Proceed on February 5, 2004. The expected construction completion of the project is December 2008.

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The Homeland Security Program consists of five projects: a waterside security surveillance system, facility security enhancements, passenger complex vehicle screening, passenger complex perimeter security, and a waterborne perimeter security barrier. For these projects, the Port is responsible for the design and installation of integrated surveillance systems including cameras, motion detectors, nonintrusive inspection for vehicles, and waterborne perimeter security barriers. Estimated project completion is April 2008. To provide support for the inspection of special and high-risk maritime shipping containers passing through the Port of Los Angeles and Port of Long Beach, a Joint Agency Container Inspection Facility (JCIF) project is proposed to serve the needs of various enforcement agencies. Estimated project completion is June 2008.

The San Pedro Waterfront Master Plan is envisioned as a catalyst to provide public access along the San Pedro Waterfront and includes specific development projects and associated infrastructure improvements for approximately 422 acres, from the Vincent Thomas Bridge to the Federal Breakwater. The plan has three major components: 1) a water plan; 2) a land plan; and 3) a transportation plan. This Master Plan is being developed with the community and Port stakeholders. When complete, the waterfront will be revitalized with parks, plazas, beaches, harbors, cultural, and recreational attractions – all linked by a continuous and generous promenade.

The Waterfront Gateway Program includes approximately 2.5 miles of pedestrian promenade, multi-use parkway, and open space including lighting, signage, landscaping, irrigation, and hardscaping from the Vincent Thomas Bridge to 5th Street in San Pedro. In addition, the program includes water features at the Gateway Plaza and 2nd Street, and automatic restrooms. Project completion is expected by summer 2007.

The San Pedro Waterfront Enhancements Program will improve existing, and construct new, pedestrian walks and plazas, create green open spaces, provide additional vehicular parking and new landscaping between the Port and waterfront. Several projects are anticipated to begin in 2007.

The Cruise Terminal Development Program includes a proposed upgrade of the existing cruise terminal facilities at Berth 91-93, a temporary cruise terminal baggage building at Berth 90-91, AMP, a proposed new cruise terminal in the outer harbor at Berth 46-47, relocation of Catalina Express/Island Express, and new multi-level/shared use parking structure. Environmental assessment completion is expected in early 2007.

The Wilmington Waterfront Development Program is a 95-acre development incorporating landscaping, commercial/retail/restaurant development, cultural/community facilities, and transportation improvements.

The Harbor Beautification Program continues to be a high-priority activity for the Port. The construction of the Pacific Avenue Beautification project started September 2005 and projected completion August 2007. Alameda Street Landscape Beautification will construct a greenbelt along Alameda Street. It involves replacing the top two feet of topsoil, and planting trees, shrubs, and sod. Design completion anticipated by summer 2006. The 1,000 tree program continues as a high priority.

The programs described are being designed and constructed to meet the needs of the community and the Port's current container terminal customers. Every major terminal within the Port will be upgraded and expanded over the next three to five years to accommodate growth in container movements and increase cargo capacity.

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Factors That May Affect the Port's Operations

The revenue growth and profitability of the Port's business depends upon the changes in income, global industrial output, and the relative value of world currencies. Real increases in domestic consumer income tends to induce increases in foreign imports of goods, while growth of consumer spending power outside the United States fosters our export market. Expanding industrial production overseas generates more shipments of export raw materials and intermediate or semi-finished goods. A rise in the value of the US dollar would typically adversely impact US exports while accelerating imports. Conversely, a significant drop in the value of the US dollar would reduce imports and strengthen the US export market. Changes in the world labor force and transportation costs can impact where goods are made and through which ports goods are shipped.

Changes in the container shipping industry impact the Port's growth and profitability, and its ability to maintain its position as the leading container port in the nation. The container shipping industry is continuing to seek methods to reduce cost while providing a better service to importers and exporters alike. Cost reductions are achieved through economies of scale. Container ship sizes are now reaching capacity of an estimated 11,000 plus TEUs, which is clear evidence of container shipping industry ongoing drive to further reduce cost. Additionally, business alliances among container shipping lines also created an increasing demand for development of progressively larger container terminals, frequently exceeding 250 acres. The Port is working to expand existing terminals, upgrade wharves, as well as construct new facilities to meet the demand and the increasing number of mega container ships. The 484-acre Pier 400 container terminal operated by APM terminals since August of 2002 is one such example.

These new generation container ships require channel depths of more than 50 feet for safe navigation. The Port's Main Channel deepening project, which will lower the channel depth to -53 feet, will be complete in December 2007.

Environmental mitigation is critical in any Port project. The costs of the majority of environmental mitigation measures will be considered during the terminal lease renewal process with customers. The Port may subsidize other environmental mitigation programs. The financial commitment by the Port to promote environmental mitigation measures that reduce the impacts to the environment of the Port-related activities would have an impact to the Port's profitability.

Efficient rail yard operations represent another important requirement to ensure goods are transported throughout the country in the most efficient manner possible. With the exception of the TraPac facility, all container terminals at the Port have on-dock rail capacity. The Port has plans to build an on-dock rail facility at TraPac and is looking at expanding on-dock intermodal rail at all other existing on-dock/near-dock facilities that serve our customers. The Port is also working to develop a new, general-use rail yard.

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Competitive Environment

In the fiscal year ended June 30, 2006, 99.6% of the entire U.S. West Coast containerized cargo market was controlled by six major containerports: the ports of Los Angeles, Long Beach, and Oakland in California; the ports of Seattle and Tacoma in Washington State; and the port of Portland in Oregon. The ports of Los Angeles and Long Beach together controlled 71.0% of all U.S. West Coast market share.

The industry is capital intensive and requires long lead times to plan and develop new facilities and infrastructure. Resources are typically allocated and facilities developed upon the commitment of customers to long-term leases of 25 to 30 years. Occupancy remains high and West Coast ports have limited capacity for expansion. Additionally, the greater Los Angeles area represents not only a large destination market for waterborne goods, but is also the most attractive point of origin for trans-shipments to Midwest and East Coast destinations.

West Coast Container Market Share *
(In thousands)

	Year ended					
	June 30			June 30		
	2006	**2005**	**2004**	**2006**	**2005**	**2004**
	Loaded TEUs (In thousands)			**Market Share** Percentage		
Los Angeles	5,309	4,685	4,977	37.3%	37.5%	42.6%
Long Beach	4,799	4,061	3,449	33.7	32.5	29.5
Oakland	1,442	1,300	1,112	10.1	10.4	9.5
Tacoma	1,163	1,004	943	8.2	8.0	8.1
Seattle	1,318	1,223	881	9.3	9.8	7.5
Portland	139	145	231	1.0	1.2	2.0
All others	73	71	87	0.4	0.6	0.8
Total	14,243	12,489	11,680	100.0%	100.0%	100.0%

* Source: Port Import Export Reporting Service.

Contacting the Port's Financial Management

Questions about this report or requests for additional financial information should be addressed to the Chief Financial Officer, Port of Los Angeles, 425 S. Palos Verdes Street, San Pedro, CA 90731.

PORT OF LOS ANGELES
(HARBOR DEPARTMENT OF THE CITY OF LOS ANGELES),
A COMPONENT UNIT OF THE CITY OF LOS ANGELES, CALIFORNIA

Statements of Net Assets

June 30, 2006 and 2005

(In thousands of dollars)

		2006	2005
Assets:			
Current assets:			
Cash and investments, unrestricted (note 2)	$	256,258	211,241
Cash and investments, restricted (note 2)		191,578	113,504
Accounts receivable, less allowance for doubtful accounts of $70,350 and $50,781 in 2006 and 2005, respectively (note 14)		38,566	33,184
Grants receivable (note 13)		1,446	1,343
Materials and supplies inventories		1,762	1,622
Prepaid and deferred expenses		3,825	1,728
Accrued interest receivable		4,033	3,149
Current portion of notes receivable, less allowance for doubtful accounts of $2,000 in 2006 and 2005, respectively (notes 10 and 14)		3,866	3,757
Total current assets		501,334	369,528
Noncurrent restricted assets (note 2):			
Restricted investments – bond funds		1,292	15
Other restricted cash and investments		9,715	8,880
Accrued interest receivable		1,129	52
Total noncurrent restricted assets		12,136	8,947
Capital assets (notes 3 and 8):			
Land		955,824	953,459
Harbor facilities and equipment, less accumulated depreciation of $931,313 and $833,694 in 2006 and 2005, respectively		1,448,659	1,284,383
Construction in progress		232,412	269,520
Preliminary costs – capital projects		95,809	215,065
Net capital assets		2,732,704	2,722,427
Notes receivable (note 10)		41,637	45,075
Investment in Joint Powers Authorities and other entities, less allowance for investment loss of $19,000 for 2006 and 2005 (notes 4 and 14)		7,140	6,338
Other assets		9,359	3,978
Total assets		3,304,310	3,156,293

(Continued)

PORT OF LOS ANGELES
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Statements of Net Assets

June 30, 2006 and 2005

(In thousands of dollars)

	2006	2005
Liabilities:		
Current liabilities:		
Accounts payable	$ 22,537	37,088
Current installments of notes payable and bond indebtedness (note 5)	90,503	18,145
Accrued interest	9,525	13,495
Accrued employee benefits (note 5)	6,186	1,522
Deferred revenue and other deferred credits (note 5)	358	358
Liabilities under the City of Los Angeles' securities lending program (note 2)	44,014	33,494
Accrued construction costs payable	10,160	9,278
Other current liabilities (notes 5, 7, and 16)	89,738	72,300
Total current liabilities	273,021	185,680
Long-term liabilities (note 5):		
Bonds payable, net of current portion and deferred amount on refunding and unamortized discount/premium of $28,091 and $25,112 in 2006 and 2005, respectively	680,004	700,758
Notes payable, net of current installments	3,697	4,105
Commercial paper to be refunded from bonds	113,561	113,561
Deferred revenue and other deferred credits	2,783	2,783
Accrued employee benefits	8,013	11,285
Other liabilities (notes 7, 16, and 18)	13,105	22,858
Liabilities payable from restricted assets – other liabilities (note 7)	8,819	8,567
Total long-term liabilities	829,982	863,917
Total liabilities	1,103,003	1,049,597
Commitments and contingencies (notes 4, 5, 7, 8, 9, 11, 14, 15, 16, 17, 18, and 19)		
Net assets:		
Invested in capital assets, net of related debt	1,844,939	1,885,858
Restricted, bond proceeds	63,917	16
Unrestricted	292,451	220,822
Total net assets	$ 2,201,307	2,106,696

See accompanying notes to financial statements.

PORT OF LOS ANGELES
(HARBOR DEPARTMENT OF THE CITY OF LOS ANGELES),
A COMPONENT UNIT OF THE CITY OF LOS ANGELES, CALIFORNIA

Statements of Revenues, Expenses, and Changes in Net Assets

Years ended June 30, 2006 and 2005

(In thousands of dollars)

	2006	2005
Operating revenues (note 8):		
Shipping services:		
Wharfage	$ 330,933	288,415
Dockage	8,484	7,577
Demurrage	283	310
Cranes	2,402	3,155
Pilotage	7,737	6,951
Assignment charges	23,312	22,283
Storage	197	123
Total shipping services	373,348	328,814
Rentals:		
Land	30,807	31,788
Buildings	441	255
Warehouses	1,493	1,514
Wharf and shed revenue	1,135	1,073
Total rentals	33,876	34,630
Royalties, fees, and other operating revenues:		
Fees, concessions, and royalties	3,693	3,388
Oil royalties	84	75
Other	1,116	1,921
Total royalties, fees, and other operating revenues	4,893	5,384
Total operating revenues	412,117	368,828
Operating and administrative expenses (notes 1, 7, 9, and 12):		
Salaries and benefits	65,705	58,182
Marketing and public relations	3,333	3,455
Travel and entertainment	822	743
Outside services	33,673	39,672
Materials and supplies	5,400	5,320
City services, net of capitalized amounts of $5,629 and $6,679 in 2006 and 2005, respectively (note 12)	20,821	22,361
Provision for workers' compensation claims	6,380	1,006
Provision for bad debts (notes 10 and 14)	19,958	13,199
Other operating expenses	12,911	9,830
Total operating and administrative expenses	169,003	153,768
Income from operations before depreciation	243,114	215,060
Depreciation (note 3)	98,779	70,040
Operating income	144,335	145,020

(Continued)

PORT OF LOS ANGELES
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Statements of Revenues, Expenses, and Changes in Net Assets

Years ended June 30, 2006 and 2005

(In thousands of dollars)

	2006	2005
Nonoperating revenues (expenses):		
Income from investments in Joint Powers Authorities and other entities (note 4)	$ 4,302	3,543
Interest and investment income	9,582	7,266
Interest expense on bond indebtedness and notes payable (note 5)	(37,787)	(42,279)
Litigation, claims, and settlement expenses (notes 7, 15, 16, and 18)	(35,087)	(30,322)
Other income and expenses, net (note 2)	7,222	11,842
Net nonoperating expenses	(51,768)	(49,950)
Income before capital contributions	92,567	95,070
Capital contributions (note 13)	2,044	—
Changes in net assets	94,611	95,070
Total net assets – beginning of year	2,106,696	2,011,626
Total net assets – end of year	$ 2,201,307	2,106,696

See accompanying notes to financial statements.

PORT OF LOS ANGELES
(HARBOR DEPARTMENT OF THE CITY OF LOS ANGELES),
A COMPONENT UNIT OF THE CITY OF LOS ANGELES, CALIFORNIA

Statements of Cash Flows

Years ended June 30, 2006 and 2005

(In thousands of dollars)

	2006	2005
Cash flows from operating activities:		
Shipping service fees collected	$ 385,503	319,126
Rentals collected	34,056	34,077
Royalties, fees, and other operating revenues collected	5,657	7,536
Payments for employee salaries and benefits, net of capitalized amount of $8,611 and $8,454 in 2006 and 2005, respectively	(63,187)	(56,784)
Payments for goods and services	(160,788)	(88,991)
Proceeds from operating grants	2,026	9,582
Net cash provided by other nonoperating income and expenses	334	1,491
Net cash provided by operating activities	203,601	226,037
Cash flows from capital and related financing activities:		
Payments for property acquisitions and construction	(105,110)	(78,062)
Proceeds from sales of capital assets	52	135
Proceeds from capital grant	2,042	423
Proceeds from new issuance of commercial paper	747,490	670,044
Payment of commercial paper	(747,490)	(669,578)
Net proceeds from issuance of bonds	308,570	—
Principal repayment – bonds	(263,720)	(16,860)
Principal repayment – notes	(390)	(5,235)
Interest paid	(44,535)	(44,138)
Net cash used in capital and related financing activities	(103,091)	(143,271)
Cash flows from investing activities:		
Receipt of interest	13,348	6,881
Increase in liabilities under the City of Los Angeles' securities lending program	10,520	14,295
Decrease in fair value of investments	(3,825)	(1,223)
Purchase of investments	(1,292)	—
Payments received on notes receivable	3,830	3,695
Distribution from Joint Powers Authorities and other entities	—	2,500
Net cash provided by investing activities	22,581	26,148
Net increase in cash and cash equivalents	123,091	108,914
Cash and cash equivalents, beginning of year	324,745	215,831
Cash and cash equivalents, end of year (note 2)	$ 447,836	324,745

(Continued)

PORT OF LOS ANGELES
(HARBOR DEPARTMENT OF THE CITY OF LOS ANGELES),
A COMPONENT UNIT OF THE CITY OF LOS ANGELES, CALIFORNIA

Statements of Cash Flows

Years ended June 30, 2006 and 2005

(In thousands of dollars)

	2006	2005
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$ 144,335	145,020
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	98,779	70,040
Provision for doubtful accounts	19,569	12,756
Change in accounts receivable	(24,950)	(19,974)
Change in materials and supplies inventories	(140)	54
Change in prepaid and deferred expenses and other assets	(7,478)	7,207
Change in accounts payable	(14,551)	12,818
Change in accrued employee benefits	1,392	1,398
Change in other long-term operating liabilities	(9,752)	(4,343)
Change in deferred revenue and other deferred credits and other current operating liabilities	(3,937)	(430)
Net cash provided by used in other nonoperating income and expense	334	1,491
Total adjustments	59,266	81,017
Net cash provided by operating activities	$ 203,601	226,037

See accompanying notes to financial statements.

(1) Organization and Summary of Significant Accounting Policies

The financial statements of the Port of Los Angeles (Harbor Department of the City of Los Angeles), hereafter referred to as "Port of Los Angeles" or "Port," have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Port's accounting policies are described below.

(a) Organization and Reporting Entity

The Port of Los Angeles is an independent, self-supporting department of the City of Los Angeles, California (the City), formed for the purpose of providing shipping, fishing, recreational, and other resources and benefits for the enjoyment of the citizens of Los Angeles and surrounding communities. The Port is under the control of a five-member Board of Harbor Commissioners (appointed by the Mayor and approved by the City Council) and is administered by an Executive Director, subject to the State of California Tidelands Trust Act. The Port is granted control of tidelands, and all monies arising out of the operation of the Port are limited as to use for the operation and maintenance of Port facilities, the acquisition and construction of improvements, and other such trust considerations under the Tidelands Trust and the Charter of the City of Los Angeles.

The Port prepares and controls its own financial plan, administers and controls its fiscal activities, and is responsible for all Port construction and operations. The Port operates as principal landlord for the purpose of assigning or leasing port facilities and land areas. The Port's principal source of revenue is from shipping services under tariffs (dockage and wharfage), rental of land and facilities, royalties (oil wells), and other fees. Capital construction is financed from operations, bonded debt, and loans secured by future revenues and federal grants. Daily operation of the port facilities and regular maintenance are performed by the Port's permanent work force. Generally, major maintenance and new construction projects are assigned to commercial contractors.

Operations of the Port are financed in a manner similar to that of a private business. The Port recovers its costs of providing services and improvements through tariff charges for shipping services and the leasing of facilities to Port customers.

In evaluating how to define the Port for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GASB Statement No. 14, The *Financial Reporting Entity*, (GASB Statement No. 14) which the Port adopted effective July 1, 1993. The financial statements include only the financial activities of the Port of Los Angeles and are not intended to present fairly the financial position and results of operations of the City in conformity with GAAP.

The Los Angeles Harbor Improvements Corporation (LAHIC) is a nonprofit public benefit corporation organized under the laws of the state of California for public purposes. LAHIC was formed to assist the City of by erecting, constructing, replacing, extending, or improving facilities and services that the Board of Harbor Commissioners deems necessary for the promotion and accommodation of commerce. From time to time, LAHIC has issued long-term indebtedness to finance specific capital facilities improvements on behalf of the Port's tenants. The nature of these financings is such that the long-term indebtedness will be that of the Port tenant and not LAHIC, the Port, or the City. Therefore, for purposes of the accompanying financial statements, the long-term indebtedness of LAHIC and the corresponding lease receivable from the tenant are eliminated.

The board of directors of LAHIC consists of five members. Election of the LAHIC board of directors occurs by vote of the Board of Harbor Commissioners.

Although the tenant reimburses LAHIC for its costs of operations, the Board of Harbor Commissioners is financially responsible for LAHIC's activities. Further, although LAHIC is legally separate from the Port, LAHIC is reported as if it were part of the Port in accordance with the provisions of GASB Statement No. 14, because its sole purpose is to finance and construct facilities and improvements, which directly benefit the Port.

LAHIC is included in the reporting entity of the Port, and accordingly, the operations of LAHIC are blended in the Port's accompanying financial statements.

(b) Summary of Significant Accounting Policies

Method of Accounting – The Port is accounted for as an enterprise fund, and as such, its financial statements are presented using the economic resources measurement focus and the accrual method of accounting. Under this method of accounting, revenues are recognized when earned and expenses are recorded when liabilities are incurred without regard to receipt or disbursement of cash. The measurement focus is on determination of changes in net assets, financial position, and cash flows.

Operating revenues include charges for services. Operating expenses include costs of services as well as materials, contracts, personnel, and depreciation. In accordance with GASB Statement No. 20, the Port of Los Angeles has elected to follow GASB statements issued after November 30, 1989, rather than the Financial Accounting Standards Board, in accounting for proprietary funds.

Materials and Supplies Inventories – Inventories of materials and supplies are stated at average cost on a first-in, first-out basis.

Capital Assets – Capital assets are carried at cost or at appraised fair market value at the date received, in the case of properties acquired by donation, and by termination of leases for tenant improvements, less allowance for accumulated depreciation.

Depreciation – Depreciation is computed by use of the straight-line method over the estimated useful lives of the assets.

Current ranges of useful lives for depreciable assets are as follows:

Wharves and sheds	10 to 50 years
Buildings and facilities	10 to 50 years
Equipment	3 to 20 years

Capitalization – The Port capitalizes all purchases greater than $5,000.

Preliminary Costs of Proposed Capital Projects – Development costs for proposed capital projects that are incurred prior to the finalization of formal construction contracts are capitalized. Upon completion of capital projects, such preliminary costs are transferred to the appropriate property account. In the event the proposed capital projects are abandoned, the associated preliminary costs are charged to expense in the year of abandonment.

Indirect Project Costs – The Port capitalizes indirect project costs associated with the acquisition, development, and construction of new capital projects of the Port. Approximately $3,643,000 and $3,281,000 of such indirect project costs were allocated to construction projects for the years 2006 and 2005, respectively.

Investments in Joint Ventures – Investments in joint power authorities are accounted for by the equity method.

Interest Costs – The Port capitalized interest paid during development and construction of its capital projects. Of the $3,431,000 and $2,021,000 commercial paper interest paid in 2006 and 2005, $2,779,000 and $1,713,000 were capitalized in 2006 and 2005, respectively. The rest were expensed as certain projects financed by the commercial paper proceeds have been completed.

Pooled Cash and Investments – In order to maximize investment return, the Port pools its available cash with that of the City. Investment decisions are made by the City Treasurer.

Interest income and realized gains and losses arising from such pooled cash and investments are apportioned to each participating City department/fund based on the relationship of such department/fund's respective daily cash balances to aggregate pooled cash and investments (see note 2). The change in the fair value of pooled investments is allocated to each participating City department/fund based on the aggregate respective average cash balances.

The Port's investments, including its share of the City's pooled investments, are stated at fair value. Fair value is determined based upon market closing prices or bid/asked prices for regularly traded securities. The fair value of guaranteed investment contracts and other investments with no regular market is estimated based on similar traded investments. The fair value of mutual funds, government-sponsored investment pools, and other similar investments is stated at share value or appropriate allocation of fair value of the pool, if separately reported. Certain money market investments with initial maturities at the time of purchase of less than one year are recorded at cost. The calculation of realized gains is independent of the calculation of the net increase in the fair value of investments. Realized gains and losses on investments that had been held more than one fiscal year and sold in the current year may have been recognized as an increase or decrease in fair value of investments reported in the prior year.

Securities Lending – As a participant in the City of Los Angeles Investment Pool, the Port also participates in the City of Los Angeles securities lending program. The investment collateral received by the City together with the corresponding liability created is allocated among the City's participating funds using the same basis as allocation of interest income and realized gains or losses.

Accrued Employee Benefits – The Port records all accrued employee benefits, including accumulated vacation and sick pay, as a liability in the period the benefits are earned. Accrued employee benefits are treated as a liability for financial statement presentation.

Operating Leases – A substantial portion of the Port lands and facilities is leased to others. The majority of these leases provide for cancellation on a 30-day notice by either party and for retention of ownership by the Port or restoration of the property at the expiration of the agreement; accordingly, no leases are considered capital leases for purposes of financial reporting (see note 8).

Statements of Cash Flows – For purposes of the statements of cash flows, the Port considers all cash and investments pooled with the City, plus any other cash deposits or investments with initial maturities of three months or less, to be cash and cash equivalents.

Pension Plan – All full-time employees of the Port are eligible to participate in the City Employees' Retirement System of the City, California (the System), a plan available to substantially all City full-time employees. The Port's policy is to fund its entire share of System pension costs billed by the City. The costs to be funded are determined annually as of July 1 by the System's actuary and are incorporated into the payroll burden rate to reimburse the City for the Port's pro rata share of contributions made (see note 9).

Capital Contributions – The Port receives grants for the purpose of acquisition or construction of property and equipment. These grants are recorded as capital contributions when the grant is earned. Grants are generally earned upon expenditure of funds.

(Continued)

Use of Estimates – The preparation of financial statements in conformity with U.S. GAAP accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Reclassifications – Certain reclassifications have been made to the amounts reported in 2005 in order to conform to the 2006 presentation. Such reclassifications had no effect on previously reported results of operations.

(2) Cash and Investments

(a) Cash and Pooled Investments

Substantially all of the Port's operating cash is deposited with the City Treasurer under the City Treasurer's pooled investment program. The California Government Code authorizes the City to invest in obligations of the U.S. Treasury, federal agencies, municipalities, certain commercial paper, bankers' acceptances, and repurchase and reverse repurchase agreements, up to certain specified allowable percentages.

The Port's cash and investments consist of the following (in thousands of dollars):

	2006	2005
Cash in bank and certificates of deposit	$ 410	1,928
Investment in U.S. Treasury money market fund	64,757	162
Equity in the City of Los Angeles Investment Pool	393,676	331,550
Total cash and investments	$ 458,843	333,640

(Continued)

Certain of the Port's cash and investments are restricted as to use either by reason of bond indenture requirements or actions of the Board. The Port's unrestricted and restricted cash and investments are as follows (in thousands of dollars):

	2006	2005
Unrestricted cash and investments	$ 256,258	211,241
Restricted cash and investments:		
Current:		
Bond Funds	62,625	
Emergency Fund	87,409	84,045
China Shipping Mitigation Fund	31,036	18,811
Community Aesthetics Mitigation Fund for Parks	3,418	3,476
Owner-Controlled Insurance Program	500	500
U.S. Customs House, Terminal Island	6,153	6,257
Other	437	415
Subtotal – current	191,578	113,505
Noncurrent:		
Harbor Revenue Bond Fund	1,292	15
Commercial Paper Redemption Fund	836	147
Customer security deposits	3,143	1,621
Batiquitos Environmental Fund	5,244	5,066
Harbor Restoration Fund	492	475
Marinas Credit Fund	—	1,571
Subtotal – noncurrent	11,007	8,895
Total restricted cash and investments	202,585	122,400
Total cash and investments	$ 458,843	333,640

(b) Deposits – Custodial Credit Risk

The Port has cash deposits and certificates of deposit with several major financial institutions amounting to $410,000 and $1,928,412 at June 30, 2006 and 2005, respectively, with a corresponding bank balance of $193,000 and $1,686,000, respectively. The deposits are entirely covered by federal depository insurance or are collateralized by securities held by the financial institutions in the Port's name in conformance with the State Government Code.

(Continued)

(c) Investments Authorized by the City's Investment Policy

The table below identifies the investment types that are authorized for the Port by the City's investment policy. The table also identifies certain provisions of the City's investment policy that address interest rate risk, credit risk, and concentration of credit risk.

	Maximum maturities	Maximum concentration
U.S. Treasury and Federal Agency Securities	5 years	100
Bonds issued by local agencies	5 years	100
Registered State Warrants and Municipal Notes	5 years	100
Bankers Acceptances	180 days	40
Commercial Paper	270 days	40
Negotiable Certificates of Deposit or Time Deposits		
Yankee Certificates of Deposit		
CRA Certificates of Deposit or Time Deposits	180 days	30
Repurchase Agreements	32 days	15
Reverse Repurchase Agreements	92 days	5*
Medium Term Corporate Notes	5 years	30
Shares of a Money Market Mutual Fund	N/A	20
Securities Lending Program	N/A	20
Asset Backed Securities	5 years	20**
Collateralized Mortgage Obligations	5 years	20**
Local Agency Investment Fund (LAIF)		(per State Limit)***

* The total of reverse repurchase agreements and the securities subject to a securities lending agreement may not exceed 20% of the total portfolio.
** Combined total for mortgage-backed and asset-backed securities
*** Current account limit is $40 million.

(d) City of Los Angeles Investment Pool

At June 30, 2006, the investments held in the City Treasury's General and Special Investment Pool Programs and their maturities are as follows (in thousands):

			Investment Maturities			
Type of Investments		**Amount**	**1 to 30 Days**	**31 to 60 Days**	**61 to 365 Days**	**366 Days to 5 Years**
U.S. Treasury Notes	$	757,826	7,193	—	—	750,633
U.S. Agencies		3,483,994	229,854	259,964	519,398	2,474,778
Medium-Term Notes		1,077,004	—	—	125,689	951,315
Commercial Paper		1,298,356	1,173,459	52,464	72,433	—
State of California LAIF		2,204	2,204	—	—	—
Short-Term Investment Funds		14	14	—	—	—
Securities Lending Cash Collateral:						
U.S. Treasury Notes		607,597	—	—	—	607,597
U.S. Agencies		344,340	—	—	—	344,340
Total General and Special Pools	$	7,571,335	1,412,724	312,428	717,520	5,128,663

(The Port has $353,254,000 invested in the City's Pool, which represents approximately 4.7% of the City Treasury's General and Special Investment Pool.)

The Port has $393,676,000 and $331,550,000 invested in the City's Pool, which represent approximately 5.2% and 5.0% of the City Treasury's General and Special Investment Pool at June 30, 2006 and 2005 respectively.

Interest Rate Risk. The City's investment policy limits the maturity of its investments to a maximum of five years for U.S. Treasury and federal agency securities, medium-term corporate notes, and bonds issued by local agencies; 270 days for commercial paper; and 32 days for repurchase agreements.

Credit Risk. The City's investment policy requires that for all classes of investments, except linked banking certificates of deposits, the issuers must have minimum credit ratings as follows: Standard and Poor's Corporation (S&P) A-1/A; Moody's Investor Services (Moody's) P-1/A2; Fitch Ratings (Fitch), if available, F1/A. The City's investments in medium-term notes were rated A+ or better by S&P and A1 or better by Moody's, while investments in commercial paper were rated A-1+ by S&P, and P-1 by Moody's. As further required by the City's investment policy, corporations operating within the United States that have total assets in excess of $500 million issued the medium-term notes, and the commercial paper issuers are corporations organized in the United States as special purpose corporations, trust or limited liability companies having program-wide credit enhancements. The State of California Local Agency Investment Fund is not rated.

(Continued)

Concentration of Credit Risk. The City's investment policy does not allow more than 10.0% of its investment portfolio, except U.S. Treasury and federal agencies, to be invested in securities of a single issuer including its related entities. The City's investment policy further provides for a maximum concentration limit of 30% on any individual federal agency or government-sponsored entity. The City's pooled investments comply with these requirements. GAAP requires disclosure of certain investments in any one issuer that represent 5% or more of total investments, the City does not have such investment.

(e) City of Los Angeles Securities Lending Program

The Port participates in the City of Los Angeles securities lending program. Under this program, the City lends investment securities to broker-dealers for collateral that will be returned for the same securities in the future. These activities are governed by a contractual agreement with the City's bank limiting the nature and amount of transactions subject to full collateralization. Collateral securities are initially pledged at 102.0% of the fair value of the securities lent, and additional collateral has to be provided by the next business day if its value falls to less than 101.5% of the fair value of the securities lent. Under the City's program, no more than 20.0% of the par value of the City's General Investment Pool shall be available for lending. Total cash collateral received by the City was $951,937,000 and $874,152,000 at June 30, 2006 and 2005, respectively. No noncash collateral was received by the City at June 30, 2006. Net revenues earned by the City on its securities lending program totaled $1,140,731 and $1,160,000 for the years ended June 30, 2006 and 2005, espectively. The Port's share of cash collateral received and corresponding liability aggregated approximately $44,014,000 and $33,495,000 at June 30, 2006 and 2005, respectively.

(f) Other Investments

Other investments of $64,757,000 and $162,000 at June 30, 2006 and 2005, respectively, consist of investments in a U.S. Treasury securities money market fund. At June 30, 2006, these investments were not required to be categorized.

(Continued)

(3) Capital Assets

The Port's capital assets consist of the following activity for the years ended June 30, 2006 and 2005 (in thousands of dollars):

	July 1, 2005	Increases	Decreases	June 30, 2006
Capital assets not being depreciated:				
Land	$ 953,459	2,365	—	955,824
Construction in progress	269,520	72,996	(110,104)	232,412
Preliminary costs – capital projects	215,066	38,681	(157,938)	95,809
Total capital assets not being depreciated	1,438,045	114,042	(268,042)	1,284,045
Capital assets being depreciated/ amortized:				
Wharves and sheds	642,694	14,002	—	656,696
Buildings/facilities	1,428,056	233,017	—	1,661,073
Equipment	47,326	16,354	(1,477)	62,203
Total capital assets being depreciated/amortized	2,118,076	263,373	(1,477)	2,379,972
Less accumulated depreciation/ amortization for:				
Wharves and sheds	(228,231)	(19,020)	—	(247,251)
Buildings/facilities	(569,464)	(73,020)	—	(642,484)
Equipment	(35,999)	(6,739)	1,160	(41,578)
Total accumulated depreciation	(833,694)	(98,779)	1,160	(931,313)
Total capital assets being depreciated/ amortized, net	1,284,382	164,594	(317)	1,448,659
Total capital assets, net	$ 2,722,427	278,636	(268,359)	2,732,704

(Continued)

	July 1, 2004	Increases	Decreases	June 30, 2005
Capital assets not being depreciated:				
Land	$ 859,857	93,602	—	953,459
Construction in progress	448,719	72,777	(251,976)	269,520
Preliminary costs – capital projects	212,452	34,205	(31,591)	215,066
Total capital assets not being depreciated	1,521,028	200,584	(283,567)	1,438,045
Capital assets being depreciated/ amortized:				
Wharves and sheds	570,347	72,347	—	642,694
Buildings/facilities	1,334,703	93,353	—	1,428,056
Equipment	45,329	2,553	(556)	47,326
Total capital assets being depreciated/amortized	1,950,379	168,253	(556)	2,118,076
Less accumulated depreciation/ amortization for:				
Wharves and sheds	(211,803)	(16,428)	—	(228,231)
Buildings/facilities	(518,641)	(50,823)	—	(569,464)
Equipment	(33,753)	(2,789)	543	(35,999)
Total accumulated depreciation	(764,197)	(70,040)	543	(833,694)
Total capital assets being depreciated/ amortized, net	1,186,182	98,213	(13)	1,284,382
Total capital assets, net	$ 2,707,210	298,797	(283,580)	2,722,427

Interest expense of $2,779,000 and $1,713,000 was capitalized for 2006 and 2005, respectively.

(4) Investment in Joint Powers Authorities and Other Entities

The Port has entered into two joint exercise of powers agreements and a shareholders' agreement as follows:

(a) Intermodal Container Transfer Facility Joint Powers Authority

The Port and the Harbor Department of the City of Long Beach, California (Port of Long Beach) entered into a joint exercise of powers agreement to form the Intermodal Container Transfer Facility Joint Powers Authority (ICTF) for the purpose of financing and constructing a facility to transfer cargo containers between trucks and railroad cars. The Port contributed $2,500,000 to the ICTF as part of the agreement. The facility, which began operations in December 1986, was developed by Southern Pacific Transportation Company (SPTC, subsequently a wholly owned subsidiary of Union Pacific Corporation), which operates the facility under a long-term lease agreement. The Port appoints two members of the ICTF's five-member governing board and accounts for its investment using the equity method. Both the Port of Los Angeles and the Port of Long Beach share income and equity distributions equally.

Pursuant to an indenture of trust dated November 1, 1984, the ICTF issued $53,915,000 in bonds (1984 Bonds) on behalf of the SPTC to construct the facility. In 1989, the ICTF issued $52,315,000 in refunding bonds (1989 Bonds) on behalf of the SPTC to advance refund all of the 1984 Bonds. In 1999, the ICTF, on behalf of the SPTC, again issued $42,915,000 of refunding bonds (1999 Bonds) to advance refund all of the 1989 Bonds. The 1999 Bonds are payable solely from payments by the SPTC under the lease agreement for use of the facility. The nature of the bonds is such that the indebtedness is that of the SPTC and not of the ICTF, the Port of Los Angeles, or the Port of Long Beach.

The ICTF's operations are financed from lease revenues by ICTF activities. The ICTF is empowered to perform those acts necessary for the development of its facilities and related facilities, including acquiring, constructing, leasing, and selling any of its property. The Port's share of the ICTF's operations and assets, liabilities, and equity at June 30, 2006 and 2005 is $7,140,000 and $6,338,000, respectively.

Separate financial statements for ICTF may be obtained from the Executive Director, Port of Long Beach, 925 Harbor Plaza, Long Beach, California 90802.

(b) Alameda Corridor Transportation Authority

In August 1989, the Port and the Port of Long Beach entered into a joint exercise of powers agreement and formed the Alameda Corridor Transportation Authority (ACTA) for the purpose of establishing a comprehensive transportation corridor and related facilities consisting of street and railroad rights-of-way and an improved highway and railroad network along Alameda Street between the Santa Monica Freeway and the Ports of Los Angeles and Long Beach in San Pedro Bay linking the two ports to the

(Continued)

central Los Angeles area. The Port of Los Angeles and the Port of Long Beach share income and equity distributions equally.

During fiscal year 1995, the Port and the Port of Long Beach purchased railroad rights-of-way and other assets totaling approximately $370 million along the proposed corridor route.

At June 30, 1998, the Port had advanced a total of $13,334,000 to the ACTA to fund its share of planning and other costs incurred to date. During fiscal year 1999, the ACTA reimbursed the Port for all amounts advanced plus approximately $3.2 million of interest on such advances out of debt or grant financing proceeds. In addition, the ACTA reimbursed the Port for approximately $81.7 million of capital assets directly related to the ACTA's mission, which the Port had previously included in construction in progress. Of the capital assets transferred, approximately $22.2 million had been funded by capital grants, which the Port had previously included in contributions/land valuation equity. The Port's share of the ACTA's operations, and assets, liabilities, and equity at June 30, 2006 and 2005 is immaterial and, accordingly, has not been recorded in the accompanying financial statements.

Separate financial statements for ACTA may be obtained from the Controller, Alameda Corridor Transportation Authority, One Civic Plaza Drive, Suite 650, Carson, California 90745.

(c) Los Angeles Export Terminal, Inc.

On April 12, 1993, the Port entered into a shareholders' agreement, which formed the LAXT for the purpose of financing, constructing, and managing a dry bulk handling facility for the export of coal, petroleum coke, and related products on land leased by permit from the Port.

The Port has contributed $19,000,000 to LAXT as part of the agreement. Such contribution represents a 13.2% share of the total committed capital of $143,174,231. This capital was raised from the shareholders through a purchase of stock in LAXT. The Port's investments totaled $19,000,000 at June 30, 2006 and 2005, respectively. The Port has the right to nominate two directors to a 19-member board of directors. As of June 30, 1998, the terminal began operating under a long-term lease agreement with a terminal manager/operator.

In June 2003, LAXT loaded the last coal vessel, thereby ceasing the coal operations at the facility. Due to these circumstances, the Port has set aside $19,000,000 as 100% investment loss reserve for its share of equity participation in the LAXT.

Separate financial statements for LAXT may be obtained from the General Manager of LAXT, Post Office Box 1769, San Pedro, California 90733.

(5) Long-Term Liabilities

A summary of the Port's long-term indebtedness is as follows.

(a) Bonds Payable

1996 Series A Bonds

The Revenue Bonds, Issue of 1996 (the 1996 Series A Bonds), were issued by the Port of the City of Los Angeles in the aggregate principal amount of $300,000,000 on April 23, 1996. Proceeds from the sale of these insured 1996 Series A Bonds were used to finance construction of and improvements to certain facilities owned by the Port, to redeem at maturity certain short-term revenue certificates previously issued by the Port, and to pay certain costs of issuance in connection with the 1996 Series A Bonds.

Interest on the 1996 Series A Bonds is payable semiannually on February 1 and August 1 of each year commencing August 1, 1996. The 1996 Series A Bonds with maturity dates ranging from August 1, 1997 through 2026 bear interest at rates from 5.00% to 6.25%. The term bonds are subject to mandatory early redemption. The bonds maturing on or after August 1, 2006 are subject to optional redemption with an early redemption premium. The bonds maturing on or after August 1, 2008 are subject to optional redemption without an early redemption premium.

On October 13, 2005, the Port issued the 2005 Series A Refunding Bonds for $29,930,000 to advance refund, on a crossover basis, $30,935,000 of the 1996 Series A Bonds. Such 1996 Series A Bonds will be redeemed on their call date (the Crossover Date) of August 1, 2006 at a redemption price of 101%.

In addition, the Port issued and applied a portion of the 2005 Series C-1 Refunding Bonds to provide funds to reimburse Citigroup and De La Rosa for funds advanced by them for the purchase of $15,525,000 of 1996A Bonds tendered by the holders thereof in response to a voluntary open market purchase solicitation. All such purchased 1996A Bonds were cancelled on the date of delivery of the Series 2005C-1 Bonds.

On May 4, 2006, the Port issued the 2006A Refunding Bonds for $200,710,000 to currently refund, on a forward delivery basis, $202,705,000 of the 1996A Bonds.

The 1996 Series A Bonds are legal obligations of the Port payable solely from revenues of the Port and do not constitute or evidence indebtedness of the City of Los Angeles. The balances outstanding on the 1996 Series A Bonds, net of unamortized discount of $159,594 and $1,306,432, were $37,100,406 and $260,183,568 at June 30, 2006 and 2005, respectively.

Debt service of the Port's 1996 Series A Bonds is as follows (in thousands):

	Annual debt service requirement		
Fiscal Year	**Principal**	**Interest**	**Total**
Outstanding debt service:			
2007	$ 6,325	168	6,493
Refunded debt service:			
2007-2027 – to be redeemed on 8/1/06	30,935	941	31,876
Subtotal	37,260	1,109	38,369
Unamortized discount	(160)	—	(160)
Total	$ 37,100	1,109	38,209

1996 Series B and C Bonds

The Revenue Bonds, Issue of 1996 Series B and Series C (the 1996 Series B and C Bonds), were issued by the Port of the City of Los Angeles in the aggregate principal amount of $320,000,000 on December 4, 1996. Proceeds from the sale of these insured 1996 Series B and C Bonds were used to finance construction of and improvements to certain facilities owned by the Port, to pay certain costs of issuance in connection with the 1996 Series B and C Bonds, and to advance refund the outstanding balance of the 1995 Series A Bonds.

Interest on the 1996 Series B and C Bonds is payable semiannually on May 1 and November 1 of each year commencing May 1, 1997, with principal payments commencing November 1, 1997. The 1996 Series B and C Bonds consist of serial and term bonds maturing in amounts ranging from $340,000 to $21,960,000 at rates ranging from 4.875% to 6.25.0%.

The final maturity dates for 1996 Series B Bonds and 1996 Series C Bonds are November 1, 2026, and 2025, respectively. The term bonds are subject to mandatory early redemption. The bonds maturing on or after November 1, 2006 are subject to optional redemption with an early redemption premium. The bonds maturing on or after November 1, 2008 are subject to optional redemption without an early redemption premium.

The $21,350,000 of 1996 Series C Bonds was issued to advance refund $19,750,000 of outstanding 1995 Series A Bonds. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the 1995 Series A Bonds of $1,175,000. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through 2025 using the straight-line method. The Port advance refunded the 1995 Series A

(Continued)

Bonds to reduce its total debt service payments over the next 27 years by almost $1,755,000 and to obtain an economic gain (difference between the present values of the debt service payments of the old and new debt) of $1,209,000.

On October 13, 2005, the Port issued the 2005 Series B Refunding Bonds for $30,110,000 to advance refund, on a crossover basis, $31,690,000 of the 1996B Bonds. Such 1996B Bonds will be redeemed and cancelled on their call date (the Crossover Date) of November 1, 2006 at the redemption price of 101%.

In addition, the Port issued and applied a portion of the 2005 Series C-1 Refunding Bonds to reimburse Citigroup and De La Rosa for funds advanced by them for the purchase of $27,725,000 of the 1996B Bonds tendered by the holders in response to a voluntary open market purchase solicitation. All such purchased 1996B Bonds are cancelled on the date of delivery of the Series 2005C-1 Bonds.

The Port will issue the 2006 Series B Refunding Bonds for $209,815,000 and the 2006 Series C Refunding Bonds for $16,545,000, on a forward-delivery basis, to currently refund $211,895,000 of the 1996B Bonds and $17,065,000 of the 1996C Bonds. Such 1996B Bonds and 1996C Bonds will be redeemed and cancelled on their call date of November 1, 2006.

The refunding of 1996B Bonds and 1996C Bonds will be completed on November 1, 2006. In combination with the completion of refunding of 1996A Bonds, the Port in effect reduced its aggregate debt service by approximately $87 million, representing a net present value benefit of $51.8 million.

The 1996 Series B and C Bonds are legal obligations of the Port payable solely from revenues of the Port and do not constitute or evidence indebtedness of the City of Los Angeles. The balances outstanding on the 1996 Series B and C Bonds, net of unamortized discount of $673,457 and $756,898, and unamortized deferred amount on refunding of $799,601 and $838,765, were $267,081,942 and $302,194,337 at June 30, 2006 and 2005, respectively.

(Continued)

Debt service of the Port's 1996 Series B and C Bonds is as follows (in thousands):

	Annual debt service requirement		
Fiscal Year	**Principal**	**Interest**	**Total**
Outstanding debt service:			
2007	$ 7,905	207	8,112
Refunded debt service:			
2007-2027 – to be redeemed on 11/1/06	31,690	880	32,570
To be defeased on 08/03/06	228,960	—	228,960
Subtotal	268,555	1,087	269,642
Unamortized deferred amount on refunding of HRB 1995 Series A	(800)	—	(800)
Unamortized discount	(160)	—	(160)
Total	$ 267,595	1,087	268,682

2001 Series A Refunding Bonds

On July 11, 2001, the Port issued the 2001A Refunding Bonds in the aggregate principal amount of $36,180,000 to advance refund, on a crossover basis, $33,330,000 of the 1995B Bonds. Interest on the 2001A Refunding Bonds is payable semiannually on February 1 and August 1 of each year commencing February 1, 2002. The 2001A Refunding Bonds with maturity dates ranging from August 1, 2022 to 2025, bear interest at a rate of 5.0%. The bonds maturing on or after August 1, 2011 are subject to optional redemption without an early redemption premium.

The balances outstanding on the 2001A Refunding Bonds, net of unamortized discount of $972,986 and $1,024,196 and unamortized deferred amount on refunding of $886,480 and $933,137, were $34,320,534 and $34,222,668 at June 30, 2006 and 2005, respectively.

Debt service of the Port's 2001A Refunding Bonds is as follows (in thousands):

	Annual debt service requirement		
Fiscal Year	Principal	Interest	Total
2007	$ —	1,809	1,809
2008	—	1,809	1,809
2009	—	1,809	1,809
2010	—	1,809	1,809
2012-2016	—	9,045	9,045
2017-2021	—	9,045	9,045
2022-2026	36,180	6,280	42,460
Subtotal	36,180	33,415	69,595
Unamortized deferred amount on refunding of 1995 Series B	(886)	—	(886)
Unamortized discount	(973)	—	(973)
Total	$ 34,321	33,415	67,736

2001 Series B Bonds

The Port issued the 2001B Refunding Bonds in the aggregate principal amount of $64,925,000 to purchase $60,850,000 of the 1995 Series B Bonds tendered by bondholders in response to an open market purchase solicitation conducted through its underwriters.

Interest on the 2001B Refunding Bonds is payable semiannually on February 1 and August 1 of each year commencing on February 1, 2002. The 2001B Refunding Bonds with maturity dates ranging from August 1, 2015 to 2022, bear interest at rates from 5.25% to 5.50%. The bonds maturing on or after August 1, 2011 are subject to optional redemption without an early redemption premium.

The balances outstanding on the 2001B Refunding Bonds, net of unamortized premium of $829,059 and $880,876 and unamortized deferred amount on refunding of $3,422,166 and $3,636,052, were $62,331,893 and $62,169,824 at June 30, 2006 and 2005, respectively.

(Continued)

Debt service of the Port's 2001B Refunding Bonds is as follows (in thousands):

	Annual debt service requirement		
Fiscal Year	**Principal**	**Interest**	**Total**
2007	$ —	3,547	3,547
2008	—	3,547	3,547
2009	—	3,547	3,547
2010	—	3,547	3,547
2011	—	3,547	3,547
2012-2016	2,600	17,664	20,264
2017-2021	42,815	11,386	54,201
2022-2026	19,510	1,023	20,533
Subtotal	64,925	47,808	112,733
Unamortized deferred amount on refunding of 1995 Series B	(3,422)	—	(3,422)
Unamortized discount	829	—	829
Total	$ 62,332	47,808	110,140

2002 Series A Bonds

The 2002A Series A Refunding Bonds were issued in the aggregate principal amount of $63,520,000 on May 6, 2002, on a crossover basis, to advance refund $64,110,000 of the outstanding 1995 Series B Bonds at their first redemption date of August 1, 2002, with the exception of 1995 Series B Bonds maturing on August 1, 2002 and 2003.

Interest on the 2002A Refunding Bonds is payable semiannually on February 1 and August 1 of each year commencing on August 1, 2002, The 2002A Refunding Bonds with maturity ranging from August 1, 2004 to 2015, bear interest at a rate of 5.50%. The bonds maturing on or after August 1, 2012 are subject to optional redemption without an early redemption premium.

Prior to the Crossover Date, interest on the 2002A Refunding Bonds was secured and payable solely from amounts held in a crossover refunding escrow account created pursuant to the issue's indenture. The balances outstanding on the 2002A Refunding Bonds, net of unamortized premium of $1,637,664 and $1,817,957 and unamortized deferred amount on refunding of $1,406,009 and $1,560,799, were $55,461,655 and $59,742,159 at June 30, 2006 and 2005, respectively.

Debt service of the Port's 2002A Refunding Bonds is as follows (in thousands):

	Annual debt service requirement		
Fiscal Year	**Principal**	**Interest**	**Total**
2007	$ 4,495	2,914	7,409
2008	4,740	2,660	7,400
2009	5,000	2,392	7,392
2010	5,275	2,110	7,385
2011	5,565	1,812	7,377
2012-2016	30,155	4,054	34,209
Subtotal	55,230	15,942	71,172
Unamortized deferred amount on refunding of 1995 Series B	(1,406)	—	(1,406)
Unamortized premium	1,638	—	1,638
Total	$ 55,462	15,942	71,404

On August 1, 2002, the refunding of 1995B Bonds was completed and resulted in a difference between the reacquisition price and the net carrying amount of the 1995 Series B Bonds of $3,818,649. The difference is prorated to 2001A Bonds, 2001B Bonds, and 2002A Bonds based on the face value. They are reported in the accompanying financial statements as a deduction from bonds payable and charged to operations through 2025 using the straight-line method. As a result of the refunding, the Port in effect reduced its aggregate debt service payments by approximately $22,307,000 over the next 24 years and obtained an economic gain (difference between the present value of the old and new debt service payments) of approximately $12,633,000.

2005 Series A Bonds

The 2005 Series A Refunding Bonds were issued on October 13, 2005 in the aggregate principal amount of $29,930,000 to advance refund, on a crossover basis, $30,935,000 of the 1996A Bonds on their call date of August 1, 2006 (the Crossover Date).

Interest on the 2005 Series A Bonds is payable semiannually on February 1 and August 1 of each year commencing February 1, 2006. The 2005A Bonds with maturity dates ranging from August 1, 2010 to 2026, bear interest at rates from 3.25% to 5.00%. The bonds maturing on or after August 1, 2015 are subject to optional redemption at the redemption price of 102%.

Prior to the Crossover Date, interest payment on the Series 2005A Bonds is payable from and secured solely by investment receipts from and amounts on deposit in the related crossover refunding escrow accounts. Until the Crossover Date, the 2005B Bonds are not on parity with other outstanding Harbor Revenue Bonds.

The balance outstanding on the 2005A Bonds, plus the unamortized premium of $1,934,231 was $31,864,231 at June 30, 2006.

Debt service of the Port's 2005A Bonds is as follows (in thousands):

	Annual debt service requirement		
Fiscal Year	**Principal**	**Interest**	**Total**
2007	$ —	1,433	1,433
2008	—	1,433	1,433
2009	—	1,433	1,433
2010	—	1,433	1,433
2011	275	1,428	1,703
2012-2016	6,915	6,492	13,407
2017-2021	8,805	4,628	13,433
2022-2026	11,310	2,127	13,437
2027	2,625	66	2,691
Subtotal	29,930	20,473	50,403
Unamortized premium	1,934	—	1,934
Total	$ 31,864	20,473	52,337

Note: This schedule assumes that the $30,935,000 of 1996A Bonds will be refunded through the Crossover refunding escrow as planned on August 1, 2006.

Harbor Revenue Bonds, Issue of 2005B:

2005 Series B Bonds

The 2005 Series B Refunding Bonds were issued on October 13, 2005 in the aggregate principal amount of $30,110,000, on a crossover basis, to advance refund $31,690,000 of the 1996B Bonds on their call date of November 1, 2006 (the Crossover Date).

Interest on the 2005B Bonds is payable semiannually on February 1 and August 1 of each year commencing February 1, 2006. The 2005B Bonds with maturity dates ranging from August 1, 2008 to August 1, 2026, bear interest at rates from 3.00% to 5.00%. The bonds maturing on or after August 1, 2015 are subject to optional redemption at the redemption price of 102%.

Prior to the Crossover Date, interest on the Series 2005B Bonds is payable from and secured solely by investment receipts from and amounts on deposit in the related crossover refunding escrow funds. Until the Crossover Date, the 2005B Bonds are not on parity with other outstanding Harbor Revenue Bonds.

The balance outstanding on the 2005B Bonds, plus the unamortized premium of $1,975,424 was $32,085,424 at June 30, 2006.

Debt service of the Port's 2005B Bonds is as follows (in thousands):

	Annual debt service requirement		
Fiscal Year	**Principal**	**Interest**	**Total**
2007	$ —	1,436	1,436
2008	—	1,436	1,436
2009	125	1,434	1,559
2010	850	1,419	2,269
2011	1,200	1,382	2,582
2012-2016	6,745	6,116	12,861
2017-2021	8,660	4,259	12,919
2022-2026	11,130	1,797	12,927
2027	1,400	35	1,435
Subtotal	30,110	19,314	49,424
Unamortized premium	1,975	—	1,975
Total	$ 32,085	19,314	51,399

Note: This schedule assumes that the $31,690,000 of 1996B Bonds will be refunded through the Crossover refunding escrow as planned on November 1, 2006.

2005 Series C Bonds

The 2005 Series C-1 Refunding Bonds were issued on October 13, 2005 in the aggregate principal amount of $43,730,000, to reimburse Citigroup and De La Rosa for and to pay fees associated with the purchase on the open market of the purchased 1996 Bonds.

Interest on the 2005C-1 Bonds is payable semiannually on February 1 and August 1 of each year commencing February 1, 2006, with principal payments commencing August 1, 2006. The 2005C-1 Bonds with maturity dates ranging from August 2006 to 2017, bear interest at rates from 3.50% to 5.00%. The bonds maturing on or after August 1, 2015 are subject to optional redemption at the redemption price of 102%.

The 2005 Series C-2 Bond was issued for $4,090,000 to pay certain issuance costs. The 2005C-2 Bond was sold at rate of 4.75%. The bond is maturing on August 1, 2006 and is not subject to redemption prior to maturity.

The balance outstanding on the 2005C Bonds, net of unamortized premium of $2,440,006 and unamortized deferred amount on refunding of $1,699,591 was $48,560,415 at June 30, 2006.

Debt service of the Port's 2005C Bonds is as follows (in thousands):

	Annual debt service requirement		
Fiscal Year	**Principal**	**Interest**	**Total**
2007	$ 5,795	2,219	8,014
2008	3,340	2,009	5,349
2009	4,145	1,822	5,967
2010	1,540	1,680	3,220
2011	7,125	1,463	8,588
2012-2016	16,165	2,932	19,097
2017-2018	9,710	728	10,438
Subtotal	47,820	12,853	60,673
Unamortized deferred amount on refunding of 1996 Series A & 1996 Series B	(1,700)	—	(1,700)
Unamortized premium	2,440	—	2,440
Total	$ 48,560	12,853	61,413

2006 Series A Bonds

The 2006 Series A Refunding Bonds were issued on May 4, 2006 in the aggregate principal amount of $200,710,000, on a forward delivery basis, to currently refund $202,705,000 of the 1996A Bonds.

Interest on the 2006A Bonds is payable semiannually on February 1 and August 1 of each year. Principal and interest are payable commencing August 1, 2006. The 2006A Bonds bear interest at rate of 5.00% with maturity dates ranging from August 1, 2007 to August 1, 2026. The bonds maturing on or after August 1, 2016 are subject to optional redemption at the redemption price of 102%.

The balance outstanding on the 2006A Bonds, net of unamortized premium of $8,576,609 and unamortized deferred amount on refunding of $7,994,553 was $201,292,056 at June 30, 2006.

Debt service of the Port's 2006A Bonds is as follows (in thousands):

	Annual debt service requirement		
Fiscal Year	**Principal**	**Interest**	**Total**
2007	$ 2,950	7,369	10,319
2008	8,360	9,679	18,039
2009	7,545	9,281	16,826
2010	8,515	8,880	17,395
2011	1,270	8,635	9,905
2012-2016	34,210	39,690	73,900
2017-2021	48,130	28,697	76,827
2022-2026	71,235	14,363	85,598
2027	18,495	462	18,957
Subtotal	200,710	127,056	327,766
Unamortized deferred amount on refunding of 1996 Series A	(7,995)	—	(7,995)
Unamortized premium	8,577	—	8,577
Total	$ 201,292	127,056	328,348

(b) ***Other Long-Term Debt***

Commercial Paper

On November 1, 2001, the Port obtained a credit agreement to provide liquidity support for the issuance of Commercial Paper Notes (Notes) not to exceed $375,000,000 as a means of interim financing primarily for the construction, maintenance, and replacement of the Port's structures, facilities, and equipment. Rates vary on the Notes from 2.38% to 3.45% during the fiscal year ended June 30, 2006. Due dates also vary, but within the limit of 270 days from the issue dates.

In fiscal year 2006, the Notes were remarketed for principal only. The outstanding balance for the Notes at June 30, 2006 remained unchanged from fiscal year 2005 at $113,561,000. On August 31, 2006, the outstanding Commercial Paper was refunded by the 2006 Series D Refunding Bonds in the aggregate principal amount of $111,300,000 (see note 19).

California Department of Boating and Waterways

The Port obtained two loans aggregating $8,000,000 from the California Department of Boating and Waterways. The notes currently bear interest at 4.5%. The Port makes annual payments of interest and principal and the notes will mature in 2014 and 2015, respectively. The Port's obligation with respect to the payment of such notes is subordinate to the lien of the Port's Parity Obligations on the Harbor Revenue Funds. The balances outstanding on such notes were $4,104,701 and $4,494,898 at June 30, 2006 and 2005, respectively.

Debt service of the Port's indebtedness is as follows (in thousands):

Fiscal Year	Principal	Interest	Total
2007	$ 408	185	592
2008	426	166	592
2009	445	147	592
2010	465	127	592
2011	486	107	593
2012-2015	1,874	196	2,070
	$ 4,104	928	5,032

(c) *Prior Years' Defeasance of Debt*

In December 1989, June 1993, and December 1996, the Port defeased its outstanding Harbor Revenue Bond indebtedness issues of 1985, 1988, and 1995 Series A, aggregating $33,800,000, $131,960,000, and $19,750,000, respectively. Such debt was defeased through the establishment of irrevocable escrow funds with a major financial institution. Monies placed in trust, when considered with interest to be earned thereon, will be sufficient to make required debt service payments through the earliest possible debt retirement dates. Accordingly, the liability for those bonds has been removed from the accompanying financial statements. On August 1, 2002, all 1995 Series A Bonds were redeemed.

In May 2006, the Port defeased a portion of its outstanding Harbor Revenue Bonds issue of 1996A in an aggregate amount of $202,705,000 through the issuance of 2006A Bonds. These defeased 1996A Bonds will be redeemed and cancelled on their call date of August 1, 2006.

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The remaining bonds in the defeasance escrows held by the trustee at June 30, 2006 and 2005 were as follows (in thousands):

		2006	2005
1988 Bonds	$	94,045	98,250
1996A Bonds		202,705	—
Total	$	296,750	98,250

(d) Changes in Long-Term Liabilities

Long-term liability activity for the years ended June 30, 2006 and 2005 was as follows (in thousands):

		July 1, 2005	Additions	Reductions	June 30, 2006	Due within one year
Revenue bonds payable	$	725,870	308,570	(263,720)	770,720	90,095
Less unamortized discount/premium		(388)	15,260	715	15,587	—
Unamortized deferred amount on refunding		(6,969)	(9,853)	614	(16,208)	—
Total revenue bonds payable		718,513	313,977	(262,391)	770,099	90,095
Notes payable		4,495	—	(390)	4,105	408
Commercial paper		113,561	747,490	(747,490)	113,561	—
Deferred revenue and other deferred credit		3,141	—	—	3,141	358
Accrued employee benefits		12,807	1,392	—	14,199	6,186
Other liabilities (notes 5, 7, 16, and 18)		103,725	54,167	(46,230)	111,662	89,738
Total long-term liabilities	$	956,242	1,117,026	(1,056,501)	1,016,767	186,785

(Continued)

		July 1, 2004	Additions	Reductions	June 30, 2005	Due within one year
Revenue bonds payable	$	742,730	—	(16,860)	725,870	17,755
Less unamortized discount/premium		(305)	—	(83)	(388)	—
Unamortized deferred amount on refunding		(7,424)	—	455	(6,969)	—
Total revenue bonds payable		735,001	—	(16,488)	718,513	17,755
Notes payable		9,715	14	(5,234)	4,495	390
Commercial paper		113,095	670,044	(669,578)	113,561	—
Deferred revenue and other deferred credit		4,035	—	(894)	3,141	358
Accrued employee benefits		11,409	1,398	—	12,807	1,522
Other liabilities (note 7)		73,357	73,235	(42,867)	103,725	72,300
Total long-term liabilities	$	946,612	744,691	(735,061)	956,242	92,325

(6) Employee-Deferred Compensation Plan

The City offers a deferred compensation plan created in accordance with Internal Revenue Code Section 457 to its employees, in which the Port and its employees participate, allowing them to defer or postpone receipt of income. Amounts so deferred may not be paid to the employee during employment with the City, except for a catastrophic circumstance creating an undue financial hardship for the employee.

As a result of changes to Section 457 deferred compensation plans resulting from the Small Business Job Protection Act of 1996, the City's deferred compensation plan administrator established a custodial account on behalf of the plan participants. All amounts deferred by the Port's employees are paid to the City, which in turn pays them to the deferred compensation plan administrator. All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts are held in such custodial account for the exclusive benefit of the employee participants and their beneficiaries. Information on the Port employees' share of plan assets is not available.

While the City has full power and authority to administer and to adopt rules and regulations for the plan, all investment decisions under the plan are the responsibility of the plan participants. The City has no liability for losses under the plan, but does have the duty of due care that would be required of an ordinary prudent investor. Under certain circumstances, employees may modify their arrangements with the plan to provide for greater or lesser contributions or to terminate their participation. If participants retire under the plan or terminate service with the City, they may be eligible to receive payments under the plan in accordance with the provisions thereof. In the event of serious financial emergency, the City may approve, upon request, withdrawals from the plan by the participants, along with their allocated contributions.

(7) Risk Management

The Port purchases insurance on certain risk exposures such as property, railroad, automobiles, fleet, pilotage, and public official. The Port is, however, self-insured for general liability/litigation-type claims and workers' compensation of the Port's employees. In addition, the Port carries excess insurance on certain claims over $1,000,000. There have been no settlements related to these programs that exceeded insurance coverage in the last three years.

Claims expenditures and liabilities are reported when it is probable that a loss has been incurred and the amount of that loss, including those incurred but not reported, can be reasonably estimated. The Port utilizes actuarial studies, historical data, and individual claims reviews to estimate these liabilities. At June 30, 2006 and 2005, approximately $46,475,000 and $18,736,000, respectively, were accrued for litigation claims and workers' compensation claims, which are included in other liabilities in the accompanying statements of net assets.

Changes in the reported liability for the years ended June 30, 2006 and 2005 are as follows (in thousands):

	Beginning liability	Current year claims and estimate changes	Claim payments	Balance at fiscal year end
2005 – 2006:				
Workers' compensation	$ 2,906	6,587	1,093	8,400
Litigation	15,830	28,788	6,543	38,075
2004 – 2005:				
Workers' compensation	$ 2,906	2,229	2,229	2,906
Litigation	6,450	12,008	2,628	15,830

(8) Leases, Rentals, and Revenue Sharing Agreements

A substantial portion of the Port lands and facilities is leased to others. The majority of these leases provide for cancellation on a 30-day notice by either party and for retention of ownership by the Port or restoration of the property at the expiration of the agreement; accordingly, no leases are considered capital leases for purposes of financial reporting.

(Continued)

These lease agreements are intended to be long-term in nature (as long as 30 years) and to provide the Port with a firm tenant commitment for a minimum fixed-income stream. Many agreements also provide for additional payment beyond the fixed portion, based upon tenant usage, revenues, or volume. These agreements are also generally subject to periodic inflationary escalation of base amounts due the Port. For the years ended June 30, 2006 and 2005, revenues from such agreements aggregated approximately $250,257,423 and $235,185,285, respectively.

The property on lease at June 30, 2006 consists of the following (in thousands of dollars):

Wharves and sheds	$	656,696
Cranes and bulk facilities		65,631
Municipal warehouses		10,448
Port pilot facilities and equipment		5,485
Buildings and other facilities		772,849
Cabrillo Marina		35,500
		1,546,609
Less accumulated depreciation		(619,110)
Total	$	927,499

Assuming that current agreements are carried to contractual termination, minimum tenant commitments due to the Port over the next five years are as follows (in thousands of dollars):

Year ending June 30:		
2007	$	239,893
2008		239,464
2009		240,169
2010		240,887
2011		241,621
Total	$	1,202,034

(9) Retirement Plan

(a) Plan Description

All full-time employees of the Port are eligible to participate in the Los Angeles City Employees' Retirement System (the System), a single-employer defined benefit public employee retirement system (PERS). The System is under the management and control of the System's Board of Administration, whose authority is granted by the City Charter (Article XI). The System is an independent department of the City, and its financial statements are included in the City's Comprehensive Annual Financial Report as a retirement trust fund. The Port makes contributions to

(Continued)

the System for its pro rata share of retirement costs attributable to its employees. The total payroll for Port employees covered by the System for the years ended June 30, 2006, 2005, and 2004 was \$51,545,000, \$48,630,000, and \$45,457,000, respectively (3.0%, 3.1%, and 2.9% of total System-covered payroll in 2006, 2005, and 2004, respectively); the Port's total payroll for 2006, 2005, and 2004 was \$56,916,000, \$53,015,000, and \$48,911,000, respectively.

The System provides retirement, disability, and death benefits based on the employees' years of service, age, and final compensation. Employees with 10 or more years of service may retire if they are at least 55 years old. Normal retirement allowances are reduced for employees under age 60 at the time of retirement, unless they have 30 or more years of service and are age 55 or older. Employees age 70 or above may retire at any time with no required minimum period of service. The System does not have a mandatory retirement age and none of the Port's employees are required to contribute to the System under state statute.

Covered employees contribute to the System at a rate established through the collective bargaining process for those whose membership began prior to February 1, 1983 and at a fixed rate of 6% of salary for those who entered membership on or after February 1, 1983. The City contributes the remaining amounts necessary to pay benefits when due, as determined by the actuarial consultant of the System. Amounts charged to the Port by the City for its pro rata share of actuarially determined contributions to the System were \$8,577,000, \$6,253,000, and \$4,582,000, which is equal to the required contribution for the years ended June 30, 2006, 2005, and 2004, respectively, representing 16.6%, 12.9%, and 10.1% of the Port's covered payroll for the respective years and 3.8%, 3.4%, and 2.9% of total System employer contributions, respectively.

(b) Funding Status and Progress

The "pension benefit obligation" is a standardized disclosure measure that results from applying actuarial assumptions to estimate the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, to be payable in the future as a result of employee service to date. The measure is intended to help users assess the funding status of the fund to which contributions are made on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among employers. The measure is the actuarial present value of credited projected benefits and is independent of the funding method used. The System does not make separate measurements of assets and pension benefit obligation for individual entities of the City.

The pension benefit obligation has been computed for the System as a whole as part of an actuarial valuation performed as of June 30, 2005, the date of the latest actuarial valuation of System pension benefits, but reflects all plan amendments adopted through June 30, 2005. The valuation was performed using the projected-unit-credit-cost method using the following significant actuarial assumptions:

- A rate of return on the investment of present and future assets of 8% per year compounded annually
- Annual cost-of-living increases of 3% for retirees
- Total annual payroll increases of 4%
- Annual salary increases for individuals that vary by age averaging 4% per year over a full 30-year career

The total unfunded pension benefit obligation applicable to the System as a whole was $2,128,383,000 at June 30, 2005, as follows (in thousands):

Total pension benefit obligation	$	9,321,525
Actuarial value of available plan assets		7,193,142
Unfunded pension benefit obligation	$	2,128,383

(c) *Actuarially Determined Contribution Requirements and Contributions Made*

The System currently uses the projected-unit-credit-cost method to determine the required annual contribution amount. The required annual contribution amount is composed of two components, (1) normal cost, which is the cost of the portion of the benefit that is earned each year, and (2) the payment to amortize the unfounded actuarial accrued liability (UAAL). The components of the UAAL are amortized as a level percent of pay. Increases in the UAAL due to assumption changes over 30 years and gains and losses are amortized over 15 years.

The contributions to the System for the year ended June 30, 2005 were made in accordance with actuarially determined requirements computed through the actuarial valuation dated June 30, 2005. The employer contributions to the retirement plan represented 86% of the annual required contribution, as defined by GASB Statement Nos. 25 and 27 and resulted in a contribution shortfall of $25,110,000. The shortfall will be reflected in future higher contribution rates. The Port's allocated Net Pension Obligation (NPO) (based on allocated pensions) was $2,209,000 as of June 30, 2005.

Total annual pension costs for the City were $183,241,000, $159,083,000, and $51,604,000, for the years ended June 30, 2005, 2004, and 2003, respectively, representing 86%, 63%, and 100% of annual required contributions for each year.

(Continued)

Other contribution information and 10-year historical trend information can be found in the System's Comprehensive Annual Financial Report (CAFR). This CAFR can be obtained from the Los Angeles City Employees' Retirement System (LACERS), 360 E. Second Street, 8th Floor, Los Angeles, California 90012.

(d) Required Supplemental Information (Unaudited)

The following represents the LACERS Schedule of Funding Progress, separate information for the Port of Los Angeles was not available (in thousands of dollars):

Valuation date (June 30)	Actuarial accrued liability (AAL)	Actuarial value of assets	Unfunded (overfunded) AAL	Funded ratio	Covered payroll	Overfunded AAL as a % of covered payroll
2005	$ 9,321,525	7,193,142	2,128,383	77.2	$ 1,589,306	133.9%
2004	8,533,864	7,042,108	1,491,756	82.5	1,575,285	94.7
2003	7,659,846	6,999,647	660,199	91.4	1,405,058	47.0

(e) Other Postemployment Benefits

The Port, as a participant in the System, also provides a Retiree Health Insurance Premium Subsidy. Under Division 4, Chapter 11 of the City's Administrative Code, certain retired employees are eligible for this health insurance premium subsidy. This subsidy is to be funded entirely by the City. Employees with 10 or more years of service who retire after age 55, or employees who retire at age 70 with no minimum service requirement, are eligible for a health premium subsidy with a City-approved health carrier. The contributions to the healthcare subsidy represent approximately 25% of total actuarially determined City contributions to the System for fiscal year 2004/05. Amounts contributed specifically to the Retiree Health Insurance Premium Subsidy by the Port alone are not available.

At June 30, 2005, the date of the latest actuarial valuation of the City's Retiree Health Insurance Premium Subsidy, the total unfunded health benefit subsidy applicable to the System as a whole was approximately $825,521,000 as follows (in thousands):

Total health benefit liability	$ 1,718,899
Reserve for health benefits	893,378
Unfunded benefit liability	$ 825,521

(Continued)

(10) Notes Receivable

(a) City of Los Angeles Settlement

In 1994, the City undertook a series of studies to determine whether or not the Port received services from the City for which the Port had not been inclusively billed. These studies, collectively referred to as the Nexus Study, were conducted under the auspices of the City Attorney. The studies found that the City could have billed the Port for substantial amounts for services undertaken on behalf of the Port by the City or for City services conducted within the Harbor's jurisdiction.

It is and has been the policy of the Port to pay the City all of the amounts to which the City is entitled. In light of these studies, the Board of Harbor Commissioners adopted a resolution providing for the reimbursement to the City of certain expenditures incurred by the City on behalf of the Port, but which had never been inclusively billed by the City to the Port. Under its resolution, the Board of Harbor Commissioners authorized the Port to make, and the Port paid to the City, two annual payments of $20,000,000 for the 1994/95 and 1995/96 fiscal years. The Board of Harbor Commissioners further authorized the Executive Director to negotiate additional amounts as may be determined to be due, and accordingly, a memorandum of understanding with the City was executed on June 27, 1997 (1997 MOU).

The California State Lands Commission is responsible for oversight of the State's Tideland Trust Lands. This Commission, together with the State Office of Attorney General, has expressed concerns regarding the methodologies employed in the studies and whether such transfers of monies from the Port to the City comply with the criteria for compliance with applicable California State Tidelands Trust Land laws. Prior to the adoption of the above-referenced resolution, the California State Lands Commission officials and the Office of the Attorney General requested the Board of Harbor Commissioners to postpone any decision involving these trust funds until an inquiry into the studies and transfers could be completed by the California State Lands Commission and Office of Attorney General. Subsequently, various organizations, including the Steamship Association of Southern California, which represents carriers using the Port, together with the California State Lands Commission and Office of Attorney General, have brought legal action against the City and Port regarding the Board of Harbor Commissioners' action.

On January 19, 2001, the City, along with the Port and the California State Lands Commission, entered into a settlement and mutual release agreement to amicably resolve their disputes concerning the City's entitlement to historic and future reimbursements for costs the City incurred or would incur providing services to the Port. The settlement agreement provides that the City, as reimbursement for payments made by the Port to the City for retroactive billings for City services provided during the period July 1, 1977 through June 30, 1994, inclusive, pay the Port $53,400,000 in principal plus 3% simple interest over a 15-year period.

The settlement agreement also provides that the City reimburse the Port for the payment differential, that amount representing the difference between the actual payments and the amount to which the City would have been entitled to reimbursement during fiscal year 1994-95 and fiscal year 2002-2003, inclusive, had the reimbursement been computed during each of those fiscal years using the settlement formula. This amount is estimated at $8,352,000. Payment for this period is to be reimbursed to the Port over 15 years, including 3% simple interest. The agreement also states that at any time after five years from January 19, 2001, the City, the Port, and California State Lands Commission may negotiate to amend this agreement to account for new or changed circumstances.

The State, the City, and the Port agreed to mutually release and discharge the other from any and all claims, demands, obligations, and causes of action, of whatever kind or nature pertaining in any way to the use, payment, transfer, or expenditure for any of the services or facilities identified in the Nexus Study or the 1997 MOU and provided for during the period July 1, 1977 through June 30, 2002.

Accordingly, the Port of Los Angeles had recorded the amount due from the City as a note receivable of $40,310,000 and $44,155,000 and a current portion of notes receivable of $3,846,000 and $3,733,000 as of June 30, 2006 and 2005, respectively.

(b) Note Receivable – LAXT

In August of 2001, LAXT issued a note to the Port to defer payment of $2.0 million of the minimum annual rent required in their lease. This note provides for quarterly interest payments to be made to the Port until such time as the note is fully repaid on or before July 1, 2004. As of June 30, 2006, this note remains unpaid and the Port has reserved for the full amount outstanding.

(c) Note Receivable – Yusen

In order to settle the then outstanding $2,350,867 terminal construction cost overruns, the Port agreed in 1994 that Yusen, one of the Port container terminal tenants, be permitted to pay over 22 years in equal monthly installments of $106,857. To book accounting entries, an amortization schedule using a 5% interest rate was prepared and the note balance was adjusted to $1,476,887, with the balance of $873,980 recognized as the Port's fixed assets in fiscal year 1995. The note matures in October 2015. The balance outstanding on the Yusen note is $825,121 and $887,598 at June 30, 2006 and 2005, respectively.

(11) Commitments and Contingencies

Open purchase orders and uncompleted construction contracts amounted to approximately $214,888,000 as of June 30, 2006. Such open commitments do not lapse at the end of the Port's fiscal year and are carried forth to succeeding periods until fulfilled.

(Continued)

In 1985, the Port received a parcel of land, with an estimated value of $14,000,000 from the federal government, for the purpose of constructing a marina. The Port has agreed to reimburse the federal government up to $14,000,000 from excess revenues, if any, generated from marina operations after the Port has recovered all costs of construction. No such payments were made in 2006 or 2005.

The Port has certain operating leases whose future minimum payments are insignificant.

The Port is also involved in certain litigation arising in the normal course of business. In the opinion of management, there is no pending litigation or unasserted claims, the outcome of which would materially affect the financial position of the Port.

Alameda Corridor Transportation Authority Agreement (ACTA)

In August 1989, the Port and the Port of Long Beach (the POLB and, together with the Port, the Ports) entered into a joint exercise of powers agreement and formed ACTA for the purpose of establishing a comprehensive transportation corridor and related facilities consisting of street and railroad rights-of-way and an improved highway and railroad network along Alameda Street between the Santa Monica Freeway and the Ports in San Pedro Bay, linking the two Ports to the central Los Angeles area. The Alameda Corridor began operating on April 15, 2002. ACTA is governed by a seven-member board which is comprised of two members from each Port, one each from the Cities of Los Angeles and Long Beach and one from the Metropolitan Transportation Authority. In 2003, ACTA agreed to an expanded mission to develop and support projects that more effectively move cargo to points around Southern California, ease truck congestion, improve air quality, and make roads safer. If in the future ACTA becomes entitled to distribute income or make equity distributions, the Ports shall share any such income or equity distributions equally.

In October 1998, the Ports, ACTA, and the railroads, which operate on the corridor, entered into a Corridor Use and Operating Agreement (Corridor Agreement). The Corridor Agreement obligates the railroads to pay certain use fees and container charges (Use Fees), which ACTA will assess for the privilege of using the corridor to transport cargo into and out of the Ports. ACTA is currently negotiating with the railroads regarding certain types of cargo movements (transload movements) for which the railroads are not paying Use Fees. ACTA asserts that Use Fees are due for these cargo movements. No assurances can be given that these negotiations will conclude in a manner favorable to ACTA. These Use Fees are used to pay (a) the debt service that ACTA incurs on approximately $1.2 billion of bonds, which ACTA issued in early 1999 and approximately $686 million of bonds issued in 2004, and (b) for the cost of funding required reserves and costs associated with the financing, including credit enhancement and rebate requirements, if any (collectively, ACTA Obligations). Use Fees end after 35 years or sooner if the ACTA Obligations are paid off earlier.

If ACTA revenues are insufficient to pay ACTA Obligations, the Corridor Agreement obligates each Port to pay up to twenty percent (20%) of the shortfall (Shortfall) on an annual basis. If this contingency occurs, the Ports' payments to ACTA are intended to provide cash for debt service payments and to assure that the Alameda Corridor is available to maintain continued cargo movement through the Ports. The Ports are required to include expected Shortfall payments in their budgets, but Shortfall payments are subordinate to other obligations of the Port, including the 2005 Bonds, and neither the Port nor the POLB is required to take Shortfall payments into account when determining whether it may incur additional indebtedness or when calculating compliance with rate covenants under their respective bond indentures and resolutions.

In April 2004, it has been estimated by ACTA that the Ports would be required to make Shortfall payments totaling approximately $20.5 million (the Port and POLB each being liable for their one-half share of $10.25 million) through 2027. Pursuant to the ACTA Operating Agreement, the Port is obligated to include any forecasted Shortfall payments in its budget each fiscal year. No Shortfall payments were payable by the Port in fiscal years 2003-2004, 2004-2005, or 2005-06. Based upon the April 2004 estimate for fiscal year 2005-2006, ACTA has projected a Shortfall of $4.8 million; however, the Ports are not required to fund this Shortfall because sufficient funds are available to ACTA from other sources. ACTA notified the two ports in March 2006 that no Shortfall payment was required for the fiscal year ending June 30, 2006 due to transfers from other available sources.

Estimates of Shortfalls are prepared by ACTA and such Shortfalls could vary materially from the estimates. It is not possible to predict whether, when, or how much the Port will be liable for Shortfall payments. In the opinion of management, shortfall payments, if any, would not materially affect the financial position of the Port.

(12) Related-Party Transactions

During the normal course of business, the Port is charged for services provided and use of land owned by the City, the most significant of which is related to fire protection, museum/park maintenance, and legal services. Total amounts charged by the City for services approximate $26,449,000 and $29,040,000 in fiscal years 2006 and 2005, respectively.

(13) Capital Contributions

Amounts either received or to be reimbursed for the restricted purpose of the acquisition, construction of capital assets, or other grant-related capital expenditures are recorded as capital contributions. During the year ended June 30, 2006, the Port reported capital contributions of $2,044,000 for certain capital grant projects. During the year ended June 30, 2005, the Port reported no capital contributions.

(14) Los Angeles Export Terminals

Los Angeles Export Terminal (LAXT) is an approximately 120-acre dry bulk facility that handles coal and petroleum coke destined for Asia and the Americas. When incorporated, LAXT's ownership was comprised of a coalition of 51% US firms involved in the coal chain and 49% Japanese utility, steel, and energy companies. Since LAXT's formation, the Port has made equity contributions of $19.0 million and total account receivables due to the Port from LAXT at June 30, 2006 stand at $60.5 million. Beginning in fiscal year 2001, business conditions have been such that LAXT has been unable to meet its minimum rent guarantee to the Port. Accordingly, the Port has fully reserved for its $19 million investment in LAXT, a

$2.0 million outstanding note receivable, and $60.5 million in outstanding trade receivables due from LAXT as of June 30, 2006.

On June 10, 2004, LAXT, Oxbow Carbon & Minerals, Inc., and Oxbow Terminals LLC (collectively, the Claimants) filed a claim against the City for damages in excess of $400 million (the LAXT Claim). The Claimants assert, among other things, that the City breached fiduciary duties to LAXT, breached its lease with LAXT, and interfered with LAXT's efforts to raise additional revenues. The City rejected the LAXT claim on June 23, 2004. The Claimants subsequently filed a court action in which they claimed damages in excess of $600 million. The Port filed an answer and cross-claim to the court action. The parties are currently negotiating a settlement, however there can be no assurance that an agreement will be reached. While the impact, if any, on the financial condition of the City and the Port cannot be predicted with certainty, the Port believes that there is little likelihood the Claimants will recover damages to the extent demanded in the LAXT Claim.

(15) Natural Resources Defense Council Settlement Judgment

In March 2003, the Port of Los Angeles settled a lawsuit entitled: Natural Resources Defense Council, Inc., et al. v. City of Los Angeles, et al., regarding the environmental review of a Port project. The settlement calls for a total of $50 million in mitigation measures to be undertaken by the Port. This $50 million charge was recorded to expense in fiscal year 2003.

The terms of the agreement require that the Port fund various mitigation activities in the amount of $10 million per year over a five-year term ending fiscal year 2007. As of June 30, 2006, $40 million has been placed in the mitigation funds.

Pursuant to the settlement, the Port is also obligated to expend up to $5 million to retrofit customer vessels to receive shore-side power as an alternative to using on-board diesel fueled generators. Through the end of fiscal year 2006, the Port has spent $5 million for this program.

In June 2004, the Port agreed to amend the original settlement to include an additional $3.5 million for the creation of parks and open space in San Pedro.

The settlement agreement also established a throughput restriction at China Shipping Terminal per calendar year. Actual throughput at the terminal exceeded the cap for calendar year 2005 and in April 2006 the Port placed in the mitigation funds an additional $3.9 million.

As of June 30, 2006 the Port has disbursed a total of $18.7 million as provided in accordance with the provisions of the settlement.

(16) China Shipping Settlement Agreement

In June 2005, the Port of Los Angeles settled a claim filed by China Shipping Holding Company, Ltd. (China Shipping), a current Port tenant, claiming damages and costs resulting from the delays in timely delivery of the premises at Berths 100-102, and environmental mitigation costs.

(Continued)

The settlement provided for an immediate payment of $10 million to China Shipping and amended their operating permit to provide various credits to the claimant in the form of reduction of minimum annual guarantee and container charges of $12.2 million to be applied in fiscal year 2005 – 2006. The amendment also provides for additional other credits amounting up to $7.1 million, if certain acreage or wharf improvements are not delivered within 24 – 48 months following approval of the environmental impact report for the project. Port management believes no conditions currently exist that will impact timely delivery of the facilities. Accordingly, a liability of $22.2 million was recorded as of June 30, 2005 and payment of $10 million was made and credits of $12.2 million issued in fiscal year 2006.

(17) Alledged Misuse of Federal Funds – Stanley D. Mosler vs. City of Los Angeles

An individual has brought a lawsuit under the Federal Civil False Claims Act against the Port, the City, and the Port's former Executive Director, challenging the use by the Port of certain federal funds obtained via the United States Army Corps of Engineers and State funds for the construction of Pier 400 at the Port. The plaintiff alleges that the federal contribution amount to the construction of Pier 400 was $108 million and the State contribution was approximately $1 billion. The case was under seal from 2002 to 2005 while the federal government determined whether to join as a plaintiff. In 2005, the federal government decided not to join as a plaintiff. An amended complaint was served on the Port in August 2005 requesting treble damages. The Port believes that any claims alleging misuse of federal funds and State funds are without merit. The defendants, including the City and the Port, filed motions to have the court dismiss the complaint or grant judgment in their favor. On August 11, 2006, the Court granted the City's and Port's motion to disqualify the plaintiff, on the grounds that the plaintiff is not an attorney and therefore cannot represent the interests of the United States or the State in the action, and dismissed the lawsuit. Subsequently the plaintiff brought motions to vacate the dismissal and to allow the substitution of an attorney. The trial court denied both of these motions. On October 13, 2006 the plaintiff in proper filed a notice of appeal seeking review of three court orders: the August 14, 2006 order granting defendant's motion to disqualify relator and dismiss his claims, the October 6 order denying relator's motion for substitution of counsel, and the October 6, 2006 order denying relator's motion to vacate order of dismissal.

(Continued)

(18) Asbestos Removal Liability

The Port acquired the U.S. Customs House property on Terminal Island from the U.S. General Services Administration in 2005. The Port is aware of the fact that the U.S. Customs House facility is in need of asbestos abatement. The estimate for removal of asbestos materials and lead-based paint materials is $3,000,000. The Port would incur these asbestos removal costs if the Port's future use of the site requires demolition of the existing structure. Development of the site would require future Board action and approval. The Port has accrued the $3,000,000 asbestos removal liability in the financial statements as of June 30, 2006.

(19) 2006 Series D Harbor Revenue Bonds

On August 31, 2006 the Port issued the 30-year 2006 Series D Harbor Revenue Bonds for $111,300,000 to refund the outstanding Commercial Paper Notes. This was made as a result of increase in short-term interest rates, and relatively low and stable long-term interest rates. The interest rate on CP Notes averaged 1% in fiscal year 2003 to 3.7% in fiscal year 2006. The 2006 Series D Harbor Revenue Bonds were sold at a competitive sale at a true interest cost of 4.715%.

PORT OF LOS ANGELES
(HARBOR DEPARTMENT OF THE CITY OF LOS ANGELES),
A COMPONENT UNIT OF THE CITY OF LOS ANGELES, CALIFORNIA

Capital Development Program Budget

Fiscal year 2006/2007
(In thousands of dollars)

Project Description		Estimated Expenditure
Supplemental Eng./Arch. Services	$	13,523
Main Channel Deepening		12,929
Pier 400 – Dredging, Landfill and Terminal Development		11,652
San Pedro Waterfront Project – San Pedro Waterfront		10,975
Berths 97-115 Redevelopment		10,250
Port Security		10,124
West Channel Cabrillo Beach Recreation Complex – Phase II		9,459
World Cruise Center – General Improvements		8,881
Environmental Assessment and Remediation		8,760
Harry S. Bridges Blvd. Improvement		8,305
Pier 300 – Wharf & Backland Improvements		7,813
Future Port Development		6,493
San Pedro Waterfront Project – Cabrillo Beach Improvements		6,469
Berths 225-236 Container Terminal Redevelopment		5,095
Wilmington Waterfront		4,625
Berths 115-131 Redevelopment		4,065
Minor Capital Projects		3,500
Port-Wide Transportation Improvements		3,487
Harbor-Wide Beautification Projects		3,308
POLA Administrative Building Modifications		3,271
Berths 142-147 Terminal Redevelopment		3,209
Container Cranes – General		2,781
Alternative Maritime Power Port-Wide		2,636
Terminal Improvements, General		2,430
LA Port Police Headquarters		2,430
Intermodal Container Transfer Facility (ICTF) South		2,260
San Pedro Waterfront Project – Ports-O-Call		2,017
Waterfront Red Car Line		1,450
Pacific Energy Liquid Bulk Terminal		1,344
Berth 206-211 Redevelopment		1,293
Berth 171-181 Terminal Redevelopment		1,064
Berth 212-225 Backland Development		994
Berth 206-209 Terminal Upgrade		979
Berth 49-50 Sediment Removal		868
Berth 161 – Maintenance – Yard Improvements		819
Port-Wide Facilities Plan		756
San Pedro Waterfront Project – San Pedro Downtown Harbor		554
Pier 400 – Environmental Mitigation Projects – Batiquitos/Others		543
California Maritime Studies Center		503
Port-Wide Wharf Upgrade Program		469
New Derrick Barge		467
Misc. others		5,203
Total budgeted capital improvement program cost	$	188,053

See accompanying independent auditors' report.

PORT OF LOS ANGELES
(HARBOR DEPARTMENT OF THE CITY OF LOS ANGELES),
A COMPONENT UNIT OF THE CITY OF LOS ANGELES, CALIFORNIA

Net Assets by Components

Last Ten Fiscal Years (Unaudited)
(In thousands of dollars)

		1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Net assets:											
Invested in capital assets, net of related debt	$	1,234,427	1,359,253	1,295,476	1,343,039	1,441,989	1,676,374	1,782,169	1,849,398	1,885,858	1,844,939
Restricted		70,869	207	197	204	29	195	95	17	16	63,917
Unrestricted		123,242	115,845	210,682	242,527	303,402	185,189	148,532	162,211	220,822	292,451
Total net assets	$	1,428,538	1,475,305	1,506,355	1,585,770	1,745,420	1,861,758	1,930,796	2,011,626	2,106,696	2,201,307

See accompanying independent auditors' report.

Key Information on Revenue Statistics

Last Ten Fiscal Years (Unaudited)

		1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Rates:											
General cargo tariff rate	$	3.15	3.15	3.15	3.67	3.67	3.67	3.95	3.95	3.95	6.25
Basic dockage (600')		2,033	2,033	2,033	2,236	2,236	2,236	2,236	2,348	2,348	2,465
Required rate of return		10.10%	10.10%	12.10%	12.10%	12.10%	12.10%	12.10%	12.10%	12.10%	12.10%
Containerized cargo volume (in millions of TEUs)		2.89	3.15	3.51	4.37	4.99	5.61	6.30	7.15	7.27	7.80
Revenue tons (million):											
General cargo		57.7	60.0	66.8	81.9	97.6	107.1	131.9	146.3	145.0	155.2
Liquid bulk		14.1	13.3	10.2	12.5	10.9	12.9	11.4	11.9	12.8	22.8
Dry bulk		3.5	4.6	5.1	7.1	5.4	6.2	4.2	3.9	4.3	3.6
Total		75.3	77.9	82.1	101.5	113.9	126.2	147.5	162.1	162.1	181.6
Vessel arrivals		2,786	2,569	2,683	3,060	2,899	2,778	2,845	2,812	2,646	2,771
Cruise passengers		942,771	961,187	998,086	1,110,051	1,075,397	1,099,552	1,057,291	805,918	1,097,304	1,205,947
Vehicles		207,871	126,724	212,348	388,619	312,248	314,986	347,067	213,911	242,104	212,149

See accompanying independent auditors' report.

PORT OF LOS ANGELES
(HARBOR DEPARTMENT OF THE CITY OF LOS ANGELES),
A COMPONENT UNIT OF THE CITY OF LOS ANGELES, CALIFORNIA

Summary of Revenues, Expenses, and Net Assets

Last Ten Fiscal Years (Unaudited)
(In thousands of dollars)

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Operating revenues:										
Shipping services	$ 160,282	145,770	171,798	208,416	232,749	249,900	302,078	311,384	326,814	373,148
Rentals	43,837	39,655	37,494	35,594	36,554	34,691	36,563	33,261	34,630	33,876
Royalties, fees, and other operating revenue	4,757	4,485	3,379	5,059	4,195	5,362	5,013	5,016	5,364	4,895
Total operating revenues	208,876	189,910	212,671	249,089	273,498	289,953	343,654	349,661	366,828	412,117
Operating and administrative expenses:										
Salaries and benefits	37,264	38,001	39,863	35,774	39,554	40,687	44,477	53,165	58,187	65,705
Marketing and public relations	1,999	2,459	1,648	2,229	2,385	3,064	3,654	3,769	3,455	3,333
Travel and entertainment	619	655	567	557	716	713	658	758	743	822
Outside services	11,152	10,125	13,339	12,715	16,383	21,468	21,971	32,104	39,672	33,673
Material and supplies	3,653	4,115	3,373	3,069	3,108	3,308	3,771	4,682	5,320	5,400
City services and payments	26,801	33,341	20,574	22,961	20,995	19,210	18,525	18,729	22,161	20,821
Other operating expenses	13,182	4,831	7,549	7,189	7,275	9,434	31,040	36,097	34,035	39,349
Total operating and administrative expenses	94,675	93,937	86,915	83,994	90,016	98,069	124,046	139,304	153,768	169,003
Income from operations before depreciation	114,201	95,983	125,708	165,095	183,482	191,784	219,608	210,357	215,060	243,114
Depreciation	34,664	46,156	56,081	56,205	63,187	59,680	59,365	67,934	70,040	98,779
Operating income	79,537	49,827	69,627	108,890	120,295	132,104	160,243	142,423	145,020	144,335
Nonoperating revenues(expenses):										
Income from investments in JPAs and other entities	3,229	4,182	1,667	3,146	4,485	4,917	5,717	2,795	3,543	4,302
Interest and investment income	5,314	7,706	11,041	17,437	20,097	11,003	11,430	2,298	7,266	9,587
Interest expense	(318)	(30,349)	(36,611)	(37,300)	(45,983)	(47,555)	(44,293)	(43,034)	(42,279)	(37,787)
Other income and expenses, net	(2,566)	(2,803)	(2,873)	(2,716)	(1,146)	(3,507)	(63,445)	(22,001)	(18,480)	(27,865)
Net nonoperating expenses	5,659	(21,264)	(26,781)	(25,438)	(22,552)	(35,147)	(92,591)	(59,942)	(49,950)	(51,768)
Income before capital contributions	84,996	28,363	42,846	83,452	97,743	96,957	67,652	82,481	95,070	92,567
Capital contributions	22,700	18,404	5,582	2,809	7,500	17,203	1,386	867		2,044
Special item					61,732	2,178				
Deletions of capital contribution	—	—	(17,378)	(6,846)	(7,345)	—	—	(2,518)	—	—
Changes in net assets	107,696	46,767	31,050	79,415	159,650	116,338	69,038	80,830	95,070	94,611
Total net assets – beginning of year	—	107,696	1,475,305	1,506,355	1,585,770	1,745,420	1,861,758	1,930,796	2,011,626	2,106,696
Total net assets – end of year	$ 107,696	154,463	1,506,355	1,585,770	1,745,420	1,861,758	1,930,796	2,011,626	2,106,696	2,201,307

See accompanying independent auditors' report

PORT OF LOS ANGELES
(HARBOR DEPARTMENT OF THE CITY OF LOS ANGELES), A COMPONENT UNIT OF THE CITY OF LOS ANGELES, CALIFORNIA

Revenue Tonnage by Trade Routes

Last Ten Fiscal Years (Unaudited)
(In thousands of metric revenue tons)

Trade routes	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Far East	37,942	57,294	61,140	73,707	83,727	102,482	131,304	143,005	142,385	151,971
Domestic	15,136	15,403	9,770	9,905	9,465	10,979	10,171	8,808	8,408	15,941
Australia and New Zealand	1,792	3,311	2,639	2,797	2,755	3,233	3,004	3,649	3,716	4,304
Western Mexico, Central and Western S. America	1,550	3,198	3,317	2,960	3,185	2,332	2,246	2,077	1,797	1,760
India, Persian Gulf, and Red Sea	2,938	4,498	4,610	5,485	2,225	2,614	1,970	1,795	1,888	2,507
Eastern South America	483	944	722	1,665	1,009	1,665	988	754	1,099	1,409
Western Europe	1,762	1,885	1,727	1,496	1,953	1,671	882	960	1,128	1,752
Caribbean	863	968	853	930	860	676	612	1,102	1,369	1,432
Mediterranean	228	491	593	560	148	206	139	157	151	227
Africa	51	75	19	31	88	77	94	34	168	25
Advance Wharfage and Accruals	12,435	(10,141)	(3,253)	1,973	8,539	(2,521)	(3,887)	(293)	(20)	811
Total	75,178	77,926	82,128	101,509	113,954	123,412	147,543	162,069	162,109	181,634

Percentage of total volume Trade routes	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Far East	50.5%	73.5%	78.5%	72.6%	73.5%	83.0%	89.0%	88.2%	87.8%	83.7%
Domestic	20.1	19.8	11.9	9.8	8.3	8.9	6.9	5.4	5.2	20.5
Australia and New Zealand	2.4	4.2	3.2	2.8	2.4	2.6	2.0	2.3	2.3	5.4
Western Mexico, Central and Western S. America	2.1	4.1	4.0	2.9	2.8	1.9	1.5	1.3	1.1	1.0
India, Persian Gulf, and Red Sea	3.9	5.8	5.6	5.4	2.0	2.1	1.3	1.1	1.2	1.2
Eastern South America	0.6	1.2	0.9	1.6	0.9	1.3	0.7	0.5	0.7	1.8
Western Europe	2.3	2.4	2.1	1.5	1.7	1.4	0.6	0.6	0.7	2.2
Caribbean	1.1	1.2	1.0	0.9	0.8	0.5	0.4	0.7	0.8	1.8
Mediterranean	0.3	0.6	0.7	0.6	0.1	0.2	0.1	0.1	0.1	0.3
Africa	0.1	0.1	0.0	0.0	0.1	0.1	0.1	0.0	0.1	0.0
Advance Wharfage and Accruals	16.5	(13.0)	(4.0)	1.9	7.5	(2.0)	(2.6)	(0.2)	(0.0)	1.0
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

See accompanying independent auditors' report.

PORT OF LOS ANGELES
(HARBOR DEPARTMENT OF THE CITY OF LOS ANGELES),
A COMPONENT UNIT OF THE CITY OF LOS ANGELES, CALIFORNIA

Summary of Debt Service Coverage

Last Ten Fiscal Years (Unaudited)
(In thousands of dollars)

		1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Operating revenues (1)	$	208,876	189,910	212,621	249,089	273,498	289,853	343,654	346,661	368,828	412,117
Operating expenses (2)		94,675	93,927	86,913	83,994	90,016	98,069	124,046	139,304	153,768	169,003
Net available revenue (3) = (1) – (2)		114,201	95,983	125,708	165,095	183,482	191,784	219,608	207,357	215,060	243,114
Debt service, revenue bonds		37,171	53,153	53,143	53,136	53,133	54,110	54,097	57,944	58,515	58,144
Debt service, commercial papers								988	1,079	2,021	3,431
Total debt service (4)	$	37,171	53,153	53,143	53,136	53,133	54,110	55,085	59,023	60,536	61,575
Coverage (5) (3) / (4)		3.1	1.8	2.4	3.1	3.4	3.5	4.0	3.5	3.6	3.9
Net cash flow from operations (6)	$	121,369	91,021	136,803	167,228	200,342	176,083	215,117	208,762	226,037	203,601
Coverage (7) (6) / (4)		3.2	1.7	2.6	3.1	3.8	3.2	3.9	3.5	3.7	3.3

(1) Operating revenues do not include income from investment and other nonoperating revenues.
(2) Depreciation and amortization expense, interest expense, and other nonoperating expenses are not included.
Debt service includes principal and interest payments on issued bonds as well as on commercial paper notes, which are debts backed by pledged-revenue.
Debt service does not include loans from the California Department of Boating and Waterways, which are not backed by pledged revenue.

Note: Details regarding the Port of Los Angeles' outstanding debt can be found in the notes to the financial statements.

See accompanying independent auditors' report.

Highlights of Operating Information

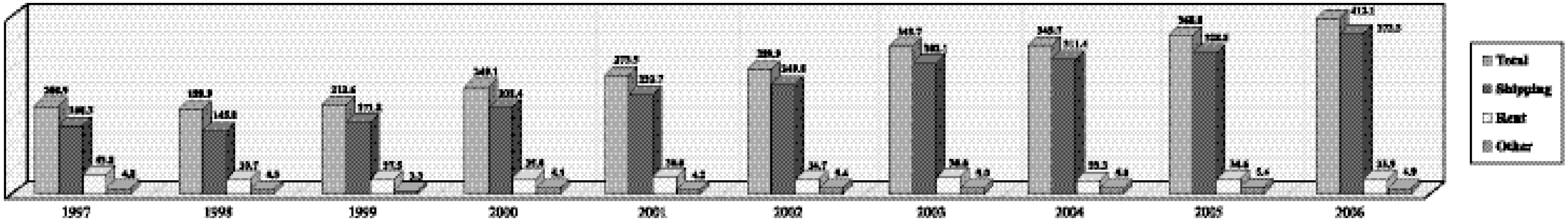
Last Ten Fiscal Years (Unaudited)
(In millions of dollars)

		1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Cash:											
Cash balance Harbor revenue fund	$	55.8	29.7	142.9	166.5	201.2	60.2	65.2	95.5	176.9	216.8
Cash balance Restricted		133.8	69.9	73.5	77.3	82.7	87.2	97.1	107.3	122.4	138.6
Property:											
Total property	$	2,431.8	2,578.3	2,576.8	2,675.5	2,810.9	3,120.2	3,346.0	3,471.4	3,556.1	3,664.0
Allowance for depreciation		397.2	425.7	480.1	535.0	594.0	653.4	711.8	764.2	833.7	931.3
Net property	$	2,034.6	2,152.6	2,096.7	2,140.5	2,216.9	2,466.8	2,634.2	2,707.2	2,722.4	2,732.7
Construction and maintenance:											
Additions to properties	$	415.3	177.5	0.3	542.3	145.3	304.8	381.0	636.5	368.8	377.4
Maintenance expenses		8.4	9.4	12.3	13.1	12.4	13.4	15.2	17.4	18.4	21.0
Employees:											
Salaries	$	39.4	38.8	38.5	37.5	39.0	41.2	43.9	48.9	53.0	56.9
Number of employees		644	611	577	541	542	557	594	634	659	706

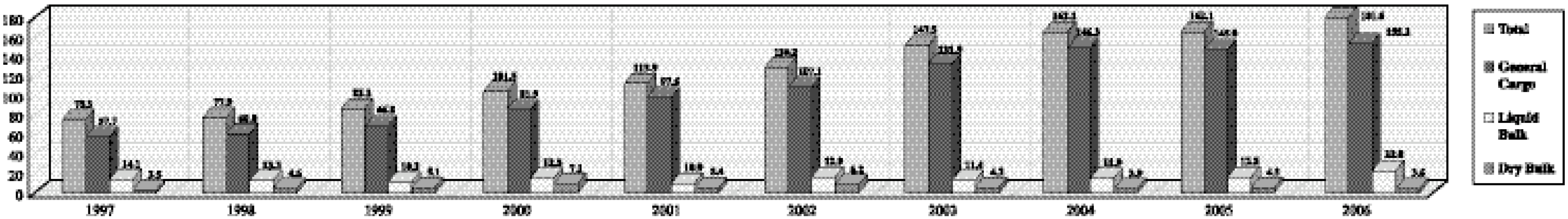
See accompanying independent auditors' report.

PORT OF LOS ANGELES (HARBOR DEPARTMENT OF THE CITY OF LOS ANGELES)

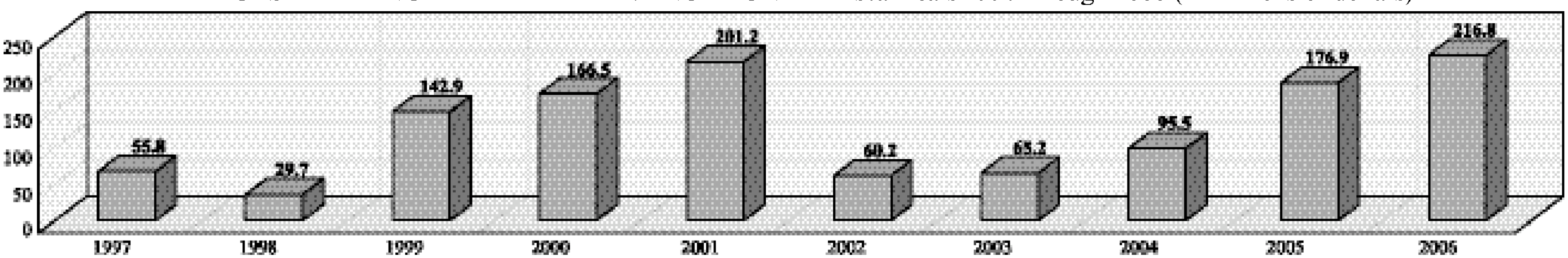
OPERATING REVENUE – Fiscal Years 1997 through 2006 (in millions of dollars)



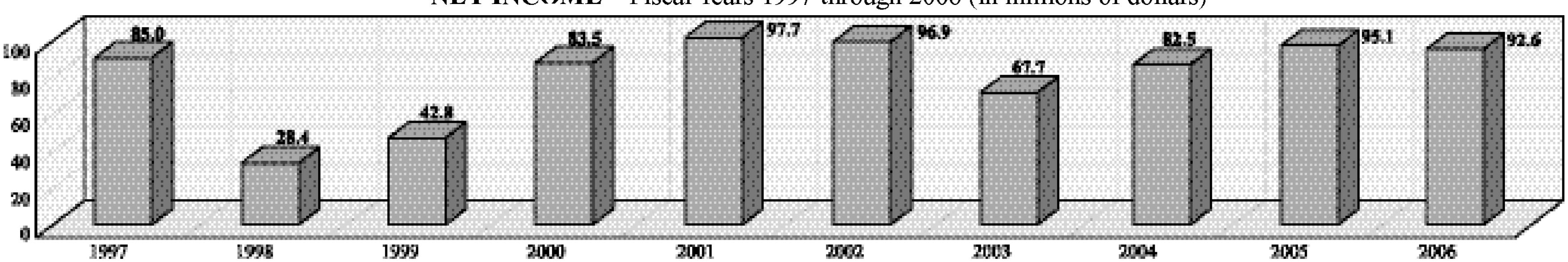
REVENUE TONS – Fiscal Years 1997 through 2006 (in millions of metric revenue tons)



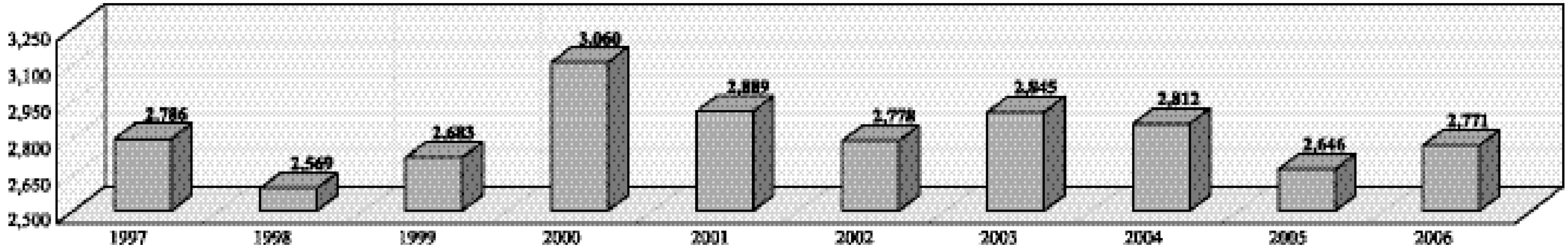
CASH BALANCE – HARBOR REVENUE FUND – Fiscal Years 1997 through 2006 (in millions of dollars)



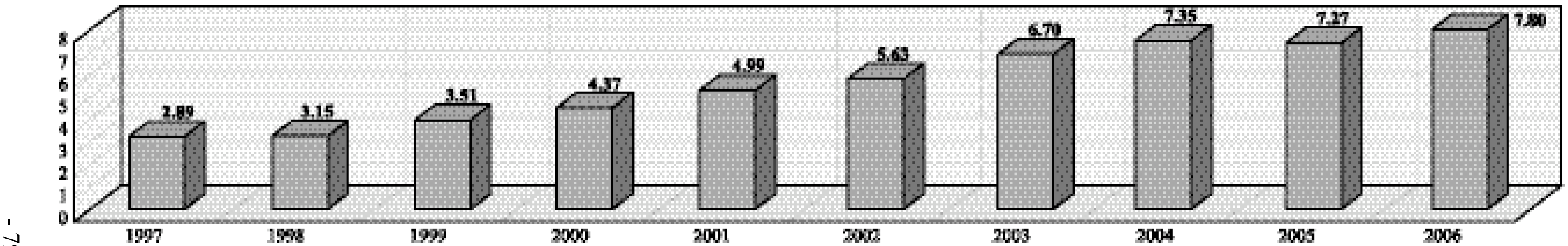
NET INCOME – Fiscal Years 1997 through 2006 (in millions of dollars)



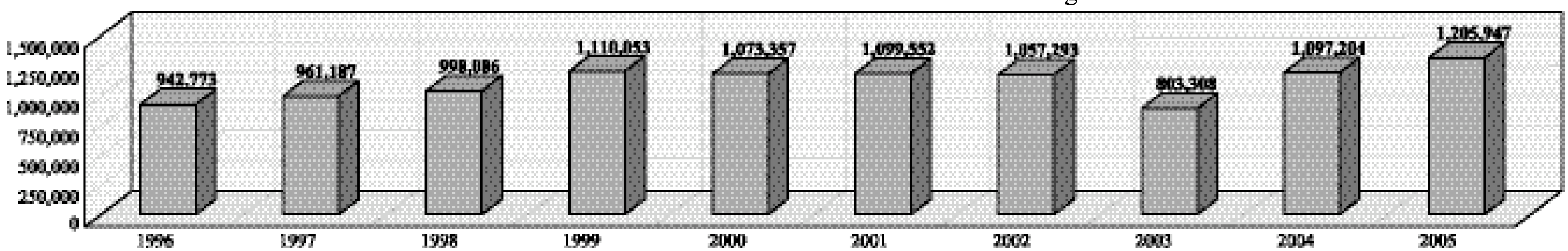
VESSEL ARRIVALS – Fiscal Years 1997 through 2006



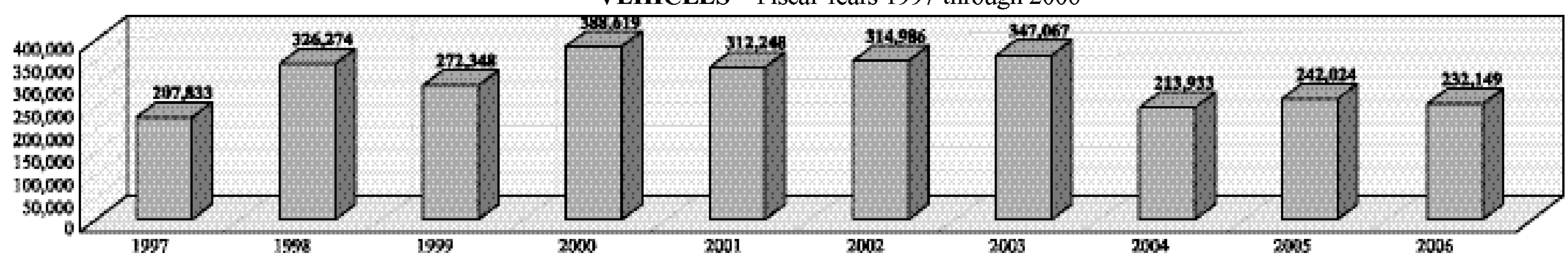
CONTAINERIZED CARGO VOLUME – Fiscal Years 1997 through 2006 (in millions of TEUs*)



CRUISE PASSENGERS – Fiscal Years 1997 through 2006



VEHICLES – Fiscal Years 1997 through 2006



*TEUs stands for twenty-foot equivalent units, the standard measurement used in the maritime industry when counting marine cargo containers.

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One Civic Plaza Drive, Suite 650
Carson, CA 90745

Separate financial statements for ICTF may be obtained from the
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Port of Long Beach
925 Harbor Plaza
Long Beach, CA 90802

Separate financial statements for LAXT may be obtained from the
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